TAX RACKET AND TAX REFORM IN CHICAGO

HERBERT D. SIMPSON

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TAX RACKET AND TAX REFORM IN CHICAGO

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BY
HERBERT D. SIMPSON, PH.D.
OF THE INSTITUTE FOR ECONOMIC RESEARCH,
AND PROFESSOR OF ECONOMICS,
NORTHWESTERN UNIVERSITY

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Richard T. Ely, Director
NORTHWESTERN UNIVERSITY
CHICAGO

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PREFACE

THIS STUDY represents the results of four years of work and of intimate contact with the tax situation in Chicago. Begun in the summer of 1926, with a trifling amount of financial support and the aid of two graduate fellowships made available by Northwestern University, it has received the support of one group after another for the purpose of extending the period of study or of broadening its scope. In this way it has finally been continued to include the results of the reassessment ordered by the State Tax Commission, the relief program of the Citizens' Committee, the Special Session of the Illinois Legislature during the past summer, and some analysis of the general programs of remedial legislation that are in process of being worked out by various groups at the present moment.

The results of the first stage of the study were embodied in a brief report, *The Assessment of Real Estate for Taxation in Chicago*, issued in June, 1927, and in a report by the Joint Commission on Real Estate Valuation to the Cook County Board of Commissioners, entitled *A Study of Assessment Methods and Results in Cook County*, issued in July, 1927. Subsequent results were published in a series of articles in the *National Municipal Review* and elsewhere, in 1928, and in the *Tenth Annual Report* of the Illinois State Tax Commission, for 1928. In the author's *The Tax Situation in Illinois*, published in 1929, the single chapter devoted to Chicago brought the results down one year further. Articles in the *Review of Reviews*, the *Atlantic Monthly*, the *Annals of the American Academy of Political and Social Science*, and numerous press releases brought the narrative into 1930. The present volume, compressed as it is into 300 pages, represents an effort to trace the significant aspects of the movement in Chicago down to the moment and to summarize the essential results of our study throughout the entire period.

These results represent the composite product of an unusually wide range of groups and individuals. A large part

of the work has been made possible through the support of the Joint Commission on Real Estate Valuation under the chairmanship of George O. Fairweather and the directorship of John O. Rees, whose cooperation has been an indispensable aid in the whole undertaking. This Commission had in turn drawn financial support from the Chicago Association of Commerce and from other business and civic organizations. The Illinois Joint Tax Conference, throughout 1928–29, afforded invaluable opportunities for conference and discussion with the dozen organizations represented in that Conference, especially with those representing the viewpoints of groups throughout the state outside of Chicago.

The author is indebted to the Board of Assessors for free access to their records and materials, even under the conditions of haste and crowding in those offices in connection with the work of assessment. He is indebted to Harry S. Cutmore, Director of the Revaluation, for access to materials and records under unusually trying conditions. He is indebted to William H. Malone, Chairman of the State Tax Commission, for access to materials in that office and for frequent opportunities to secure official consideration of the materials in this study. The Joint Legislative Revenue Committee, under the Chairmanship of the late Senator Daily, authorized an analysis of conditions in two counties in the state and made available first-hand materials for others, which afforded valuable comparison with similar data for Chicago. The Sanitary District of Chicago financed a brief study of the taxable capacity of the District, which yielded some definite facts for the present study. The Chicago Real Estate Board and the Cook County Truck Gardeners' and Farmers' Association have contributed toward the study of specific problems, which likewise have yielded valuable results for purposes of the present study. Materials contributed by John C. Watson, Tax Commissioner of the Illinois Agricultural Association, by R. A. Miller, Tax Commissioner of the Chicago and North Western Railway, and by R. C. Becket, Commissioner of the Illinois Central Railroad, have been incorporated herewith. And this list scarcely more than suggests the number of groups and individuals who have made contributions of fact or philosophy to the present study.

Finally, the Citizens' Committee, under the Chairman-

ship of Silas H. Strawn, while the author was a member of its Advisory Committee, generously authorized him, in the interims of discussing legislative programs, to devote his time to completion of the present study as a part of the work of the Committee. It was this opportunity that has made it possible to bring the study to completion for the time being.

The author is indebted to Dr. Richard T. Ely, Director of the Institute, for constant conference throughout the various stages of the work. He is heavily indebted for the untiring industry and enthusiasm of his own associates, some of whom are continuing to carry on elsewhere the type of work begun here. Miss Grace Mertsky is now on leave of absence with the University of Nanking, where she is engaged upon an agricultural survey in China. Mr. A. L. Waugaman is with the Vandergrift research organization, now engaged in a survey of the assessment situation in Utah. Mr. E. G. Rasmussen is now Professor of Economics at Vanderbilt University. Mr. J. E. Burton, of the Institute staff, has assumed chief responsibility during the past year for the field work, the work in the Assessors' offices, and the statistical results. Mrs. Dorothy C. Burton, also of the staff of the Institute, has assisted in the statistical work and has assumed chief responsibility for the work of checking and verification, the proof reading, and other details connected with publication.

There are less tangible obligations too. In his association with the Joint Commission on Real Estate Valuation, and as a member of the Illinois Joint Tax Conference, of the Citizens' Committee, and of Advisory Committees to the State Tax Commission, the Joint Legislative Revenue Committee, and the present Legislative Revenue Commission, the author has had the good fortune not only to be unusually close to the situation itself throughout the past four years, but also to be in close contact with the feelings and points of view of a wide variety of groups and interests. The results of this process of constant conference and discussion are heavily stamped upon the present study. And while the author assumes entire responsibility for its contents, a conscientious effort has been put forth to make it represent, as far as it is possible to do so in a single study, a synthesis of the best thought and judgment on problems of taxation in Chicago and Illinois.

The author flatters himself that he has succeeded measurably in doing this.

But the reader is asked to keep in mind that this study is addressed specifically to the situation in Chicago. A formal study of the problems of the general property tax or of municipal taxation would be a very different thing in its emphasis, proportions, and applications. The writer recalls that in theological discussions to which he listened in childhood, certain portions of Paul's letters to the Corinthians were interpreted on the ground that they did not represent general theological tenets but were addressed to the particular situation at the time in Corinth. So the present study is essentially an *Epistle to the Chicagoans*—of 1930. If it demonstrates its fidelity to their problem, its lack of academic symmetry may perhaps be tolerated.

Herbert D. Simpson
Chicago, Sept. 1, 1930.

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PART I

THE TAX RACKET

CHAPTER I

THE SITUATION

CHICAGO probably occupies more newspaper and magazine space today than any other city in the world. But unfortunately this generous publicity only confirms the old maxim, "Happy the people whose history is least interesting to read;" for much of the publicity about Chicago is hostile, critical, or sensational. Much of it has to do with gangs, "rackets," and "racketeers." And yet when a writer in a popular magazine of some months ago undertakes to chronicle the number and varied activities of Chicago's rackets,[1] he omits what is probably the greatest of them all—the Tax Racket. And somewhat as St. Paul made the *omission* of one God in the midst of a superfluity of gods and goddesses at Athens the theme of a celebrated discourse, so it happens that this omission in the catalogue of Chicago's rackets will form the theme of a part of the following study. If this part of the study be deemed too critical and destructive, it is hoped that this impression will be more than offset by the constructive themes that occupy the remainder of the study.

The situation in Chicago was precipitated when the Illinois State Tax Commission, after nine years of apparent somnambulance, suddenly came to life in the summer of 1928 and ordered a complete reassessment of real property in Chicago and Cook County. At the time, it was considered that the Commission

[1] *Harper's Magazine*, October, 1929.

had undertaken quite a large order. Indeed, so far as the writer knows, it was one of the largest orders of its kind that has been issued since the famous "assize" of England, when William the Conqueror, in 1085, set out to ascertain "how mickle ilk man had that landholder was in England, in land and cattle, and how mickle fee it was worth." And in terms of *value*, even William the Conqueror's assize was a smaller job than that undertaken by the Illinois State Tax Commission in 1928.

This reassessment has now been completed, at a cost of something more than two million dollars and of much concern on the part of property owners in Chicago and surrounding towns. The magnitude of this concern may be surmised from the fact that Chicago contains some $12,000,000,000 worth of real estate. On the assessment of this real estate depends the distribution of 85% of the city's tax burden, 36% of all the taxes raised throughout the state of Illinois, and at least an equal proportion of the politics and governmental problems of the city and state.

On account of the magnitude of the interests involved and the notoriety the situation has received, it has been felt that an accurate account of developments in taxation in Chicago during the past seven years might be of some concern to taxpayers of other cities and of interest to students of municipal problems in general.

In Part I of the present study, the course of real estate assessment will be traced throughout the period 1923–27, followed by the growing movement of protest against the prevailing system of assessment, and culminating in the Tax Commission's order for reassessment. In Part II, the organization and methods of this reassessment will be briefly described, its results appraised, and the relief legislation drafted by

the Citizens' Committee will be outlined. In Part III, an effort will be made to formulate any conclusions that may be drawn from the experiences of the past few years, and some of the obvious lines of remedy will be suggested.

Complexity of the Problem

In fairness to the taxing authorities, it should be said at the outset that the problems of financing a city like Chicago are extremely complex and have been made more so by the rapid growth of the city during the past decade. Chicago now embraces a population of 3,375,000 people, concentrated upon an area of 210 square miles, and possessed of some fifteen billions of wealth.[2] This is more people than are scattered today all over the broad areas of Montana, Idaho, Wyoming, Utah, Nevada, New Mexico and Arizona combined—two tiers of western states and a sweep of territory that stretches from Canada to Mexico; to which may be added, for purposes of accuracy, New Hampshire and Vermont. It is a greater population, in short, than that presided over by nine governors and nine state legislatures elsewhere, and represented by eighteen senators at Washington.

In consequence of its rapid growth in population and wealth, the city of Chicago is spending in governmental activities around $260,000,000 a year, which is as much as the entire Federal Government was spending forty years ago. In the expenditure of these funds a variety of governmental bodies participate, including, besides the state legislature and the Cook County Board of Commissioners, the City Council, the Board of Education, the Sanitary District, the Forest Preserve District, certain "townships" within

[2] Portions of this and of the two following chapters have been adapted, with some changes, from articles by the author in the *National Municipal Review* of Sept., Oct., and Nov., 1928, and are reproduced here by courtesy of the publishers.

the city which still retain the power to levy taxes, sixteen park boards, and certain other special bodies, which bring the total to more than thirty different bodies that levy taxes on property in Chicago—not to mention some four hundred other taxing bodies in the county whose expenditures affect, directly or indirectly, property holders in Chicago.

It will thus be seen that the expenditure of public money in Chicago is not only a large business but a very heterogeneous one, carried on by a surprising variety of agencies, with a confusing division of responsibility, and with apparently no coordination among spending bodies or objects of expenditure. Any private business of comparable size that would attempt to conduct its financial affairs through such an organization would certainly go bankrupt; and the only reason the city of Chicago has not gone into receivership is that its citizens have managed their private business better than their public and have accumulated sufficient surplus in the one account to offset deficits in the other. In other words, wealth has increased so rapidly during the past decade that in spite of wasteful and extravagant expenditures the government has remained solvent.

During the present year (1930), however, the city has managed to escape outright insolvency only through the voluntary action of its citizens. After the city's police force, firemen, teachers, and other employees had gone for months without pay, a Citizens' Committee, under the chairmanship of Silas H. Strawn, conducted a "Liberty" drive and raised $74,000,000 to continue essential governmental services until the regularly constituted governmental bodies could again function. It is true that this particular crisis was precipitated by a number of special and more or less temporary factors. But the situation

which made such a crisis possible has been developing for years; and in this situation the essential elements are a great city, with an enormous population and wealth, on the one hand, but with a floundering, incompetent government, on the other.[3]

The truth is that Chicago is facing the aggravated problems of an over-rapid metropolitan expansion. And these problems are likely to become still more acute; for present movements of population and industry and prospective developments in transportation appear to forecast a continued growth that may write a new chapter in the history of modern cities. But the city has already reached a point where the attainment of its possibilities for future growth is going to depend in no small degree upon the development of a municipal government that will have the capacity to meet the new problems and the enlarged responsibilities that will be imposed upon it. The maintenance of such a government, in turn, depends in no small degree upon finding means for providing adequate public revenues without at the same time retarding the development of business and industry upon which the city's growth depends. It is in the hope of contributing something toward the development of such a system of public revenue that the present study has been made.

[3] See, for example, "Chicago as a Pauper City," *Literary Digest*, Jan. 25, 1930; "Chicago Broke," *Outlook*, Feb. 5, 1930; Paul H. Douglas, "Chicago's Financial Muddle," *New Republic*, Feb. 12, 1930; Herbert D. Simpson, "Chicago's Financial Crisis," *Review of Reviews*, Apr., 1930; W. G. Shepherd, "The Winded City," *Colliers*, Apr., 12, 1930; Douglas Sutherland, "How Chicago Got That Way," *World's Work*, May, 1930.

CHAPTER II

THE TAX SYSTEM

THE essential elements of the present tax system in Illinois are the general property tax, annual franchise taxes on corporations, insurance company taxes, the inheritance tax, the motor vehicle license taxes, the gasoline tax, and some miscellaneous license taxes and fees.

The general property tax is imposed by the uniformity requirement of the State Constitution, which provides that ". . . . every person and corporation shall pay a tax in proportion to the value of his, her, or its property."[1] The substance of this provision was adopted originally in 1818, when Chicago's sky-line was nothing but a horizon on the prairie; it was reaffirmed in the agrarian constitutions of 1848 and 1870, and has been continued to the present time. Its result, so far as Chicago is concerned, is that the general property tax provides 95% of all taxes collected for the city.

The organization provided for administering the general property tax is, in brief, as follows.

Nominally at the head of the administrative organization of the state is the State Tax Commission, composed of five members, appointed by the governor of the state, which has broad but vaguely defined powers of supervision over local assessors and boards of review. The Tax Commission also assesses the roadbed, track, and rolling stock of railroads and the

[1] Constitution of 1870, Art. 9, sec. 1.

capital stock, or "corporate excess," of corporations incorporated in Illinois, *other than manufacturing, banking, mercantile, coal mining, printing and publishing corporations, and corporations organized for the breeding and improving of livestock.*

In counties under township organization, property is assessed by township assessors elected by the townships, except in counties of less than 25,000 population, where the county treasurer is *ex-officio* supervisor of assessments.

In counties not under township organization, the county treasurers are *ex-officio* assessors for the county, with power to appoint the necessary number of deputy assessors to carry on most of the work of actual assessment.

In both types of counties, there are county boards of equalization. In counties under township organization, these boards are composed of the chairman of the county board of supervisors and two citizens appointed by the county judge. In counties not under township organization, the board of county commissioners acts as a board of equalization.

In Cook and St. Clair counties, including the cities of Chicago and East St. Louis respectively, a special type of assessment organization is provided. This consists of a Board of Assessors, composed of five members, elected for terms of six years, which assesses real estate and personal property in the city and has general supervision over assessments throughout the remainder of the county. In townships outside the cities of Chicago and East St. Louis, property is assessed by township assessors elected by the townships but subject to the general supervision of the county Board of Assessors.

In each of these counties there is a county Board of Review, composed of three members, elected for six-

year terms, which reviews and equalizes the assessments as made by the Board of Assessors and by the local township assessors.

In Cook County, members of the Board of Review receive salaries of $10,000 per year, members of the Board of Assessors $9,000, making a total salary allowance of $75,000 a year in order to secure the necessary administrative capacity to direct the work of assessment in the county.

A statute of 1898 provides for a quadrennial reassessment of real estate. Legally, the Board of Assessors and Board of Review are limited, in intervening years, to the assessment of property that has previously escaped assessment, the assessment of new buildings or other physical improvements, the reassessment of property that has been damaged "by fire, flood, cyclone, storm or otherwise," and the correction of "errors."

The results of this general system of assessment will be our first subject of inquiry.

CHAPTER III

METHOD OF INVESTIGATION

The Standard

IN MEASURING the results of a tax system—or of anything else, the first step is the adoption of some standard in terms of which results are to be expressed. In the present study, *equality* has been adopted as the most essential quality of assessment for taxation; that is, the degree to which all properties are assessed at the same proportion of actual value, whatever that portion may be.

This is not meant to imply, however, that equality is the only essential, for there are many other desirable characteristics of a good assessment system. In the first place, *accuracy* of assessment, in the sense of assessment at as nearly "full" or actual value as possible, would lessen the range of manipulation and discrimination and would contribute much toward a clarification of tax and financial policies. In the second place, *economy* in the cost of making an assessment is highly desirable. A system which secured even a good assessment, but at an exorbitant cost to the taxpayers every year, might well be of doubtful wisdom. In the third place, it is desirable that the general methods of assessment employed should be *known to the taxpayers* whose property is being assessed. Taxation is no field for arbitrary procedure or for arriving at results by vague and indefinite processes that are incapable of ready explanation. The humblest taxpayer has a right to know not only what his property

is assessed at, but how it came to be assessed at that figure. In the fourth place, an efficient system of assessment will attain its results with a minimum waste of time, money, and patience in arguments with property owners, in complaints, hearings, appeals, and litigation and all the irritating processes that occupy so much of the attention of taxpayers at the present time. The sheer irritation of an incompetent and inequitable system of taxation is one of its greatest costs.

Still other features that would be highly essential to a businesslike system of assessment could be enumerated; but these features, however important they may be in themselves, are of minor importance in comparison with the general principle of *equality in assessment.* In this study, therefore, equality will be considered the primary characteristic of good assessment; and our problem will be to measure the extent to which the present system of assessment in Chicago has secured such equality, overlooking for the time being the many other characteristics of good assessment. Parenthetically, it may be observed, it is a sinister reflection upon prevailing conditions that these other essential elements of good assessment can so readily be dismissed as "minor," in comparison with more aggravated evils.

The Test Applied

In the present study, the sales value involved in actual transfers of property has been adopted as the sole measure of value, and this has been rigidly adhered to throughout the entire study.

The validity of sales value as an index of actual values for purposes of taxation has frequently been questioned. As applied to any one particular property, it is at best only one index of the value and often a

precarious one. But when dealing with the *average values* of a large number of properties, it is difficult to reconstruct any valuation that will be as valid as actual sales in the market. Indeed, when one sets up any form of appraisal or synthetic valuation as a better index of value than actual sales, it amounts virtually to saying that one's judgment as to what a property *ought* to be worth differs from what it *is* worth under the conditions prevailing at the time. As Justice Brewer, of the United States Supreme Court said years ago, "The value which property bears in the market," the amount for which it "can be bought and sold, is the real value."[1] One may discuss theoretically the various possible meanings of value; but there can scarcely be difference of opinion about the kind of value the Legislature had in mind when it provided that the value of property for purposes of taxation shall be the "price that it would bring at a fair voluntary sale in the course of trade."[2]

Method of Investigation

The study was begun in August, 1926. In order to test fairly the working of the quadrennial system itself, a period was selected exactly in the middle of the quadrennium then coming to a close, that of 1923–1927. This period proved to be from November 1, 1924 to July 1, 1925; real estate transfers in Chicago during this period—more than 7000 in all—were analyzed for the purpose of comparing assessments with actual sales values. After eliminations for incomplete or erroneous data, trades, transfers between members of a family, and transfers which represented only parts of a larger transaction, wherever these facts could be ascertained, the number of transfers was

[1] *Adams Express Co. v. Ohio*, 166 U. S. 220 (1897).
[2] Revenue Act of 1898, sec. 18.

reduced to 6445; and on these transfers the results are based.

In order to determine the actual selling values of these properties, two elements had to be considered: that part of the value represented by mortgages or other encumbrances, and that part represented by the owner's remaining equity. In determining the first element, the net amount of encumbrances of all kinds resting upon the property at the time of transfer was computed. A careful test indicated that on the average the properties included in our study were encumbered to the amount of 57% of their sales value. For this portion of the total value, therefore, we have accurate information, derived from the records of the county recorder's office.

In determining the value of the remaining equity (representing, on the average, approximately 43% of the sales value of these properties) the revenue stamps required by the Federal Government at the time were used as initial clues. A test of the relation of revenue stamp value to actual selling value, on the basis of those properties for which confidential statements were received from buyers or sellers or both, indicated that in Chicago at that time the revenue stamp values averaged 96% of confidentially declared values. Nevertheless, throughout the remainder of the investigation, the revenue stamp values were supplemented wherever possible by correspondence and interviews with buyers and sellers. Even where replies from buyers and sellers did not contain confidential statements of actual sales considerations, they frequently afforded collateral information with regard to the character of transfers that made it possible to detect errors and to eliminate transfers which did not represent *bona fide* sales.

After securing all the information possible with

regard to actual sales considerations, the entire 6,445 properties were then traced through the Sanborn Insurance maps[3] for Chicago for information relative to improvements, particularly for the purpose of determining whether the improvements upon the property at the time of assessment and at the time of transfer were identical.

The records of building permits issued by the Building Commissioner's department were then examined for all properties, in order to discover new improvements, or alterations in existing improvements, made during the period covered. Finally, in the case of a considerable number of properties about which some doubt still remained, a physical inspection was made.

As a result of the above sources of information and the various checks upon the accuracy of the information secured, it is believed that the values upon which this study has been based represent as nearly actual considerations in *bona fide* sales of real estate as it is possible to secure.

The assessments standing against these properties were then traced from the initial quadrennial assessment made by the Board of Assessors in 1923, through the quadrennial assessment of 1927, as made by the Board of Assessors and revised by the Board of Review, and finally through the reassessment under the order of the State Tax Commission. This record includes, therefore, the original assessments as made by the Board of Assessors, the regular revisions made by the Board of Review, the alterations in assessment in intervening periods made by either body, and the valuations of the Reassessment Staff for 1928. It constitutes a complete six-year record of assessments in Chicago.

[3] *Insurance Atlas Covering the City of Chicago*, Sanborn Map Company, New York.

Representativeness of Sample

There are, however, more than a million separate parcels of real estate in Chicago; and in this study it was felt essential that a sufficient number of parcels be included to constitute a representative sample for the entire city. For this purpose the usual statistical test of adequacy of sample, as indicated by the *stability of the average*, was applied to the data as assembled, with the purpose of continuing to accumulate sales data until the adequacy of the sample could be assured. The average ratio of assessed to sales value for the first 500 properties was computed, and the same percentage computed after successive increments of 500 properties, with the following striking result:

Number of Properties	Ratio of Assessed to Sales Value—1926
500	32.2%
1000	31.8
1500	33.2
2000	32.8
2500	32.3
3000	31.7
3500	31.3
4000	31.4
4500	31.2
5000	31.1
5500	31.5
6000	31.5
6105	31.3

It will be observed that the average fluctuates slightly until 3,000 properties have been reached and thereafter remains practically stationary, indicating that conditions are so similar throughout the city that as small a sample as 3,000 properties would embody all of the typical conditions. In the present study, however, the sample was increased to the number stated, namely, 6,445,[4] in order to have a sufficient

[4] This total does not appear in any one year, on account of changes made in the properties during the six-year period. For example, changes and alterations

number to make it possible to classify properties by districts within the city, by types of property, value of property, and other groupings.

Incidentally, the representativeness of these properties was later subjected to almost a positive test by a comparison of the total increase in the assessment of *these properties* in 1927 with the actual increase for the *entire city*, as finally reported by the Board of Review. These properties, as will be more fully discussed below, showed the following rates of assessment, on the basis of final Board of Review figures, for 1926 and 1927:

	Ratio of Assessed to Sales Value
1926	31.3%
1927	35.9%
Increase	4.6%

An increase of 4.6% on a base of 31.3% is equivalent to an increase of 14.7%.

The total assessed valuation for the entire city, as finally reported by the Board of Review, was:

1926	$2,807,926,632
1927	3,247,359,299
Increase	$ 439,432,667

This is an *increase of 15.6%*, compared with the *increase of 14.7%* indicated by the properties included in our sample.

The totals for the city, however, include new construction, which in turn must be reduced by the amount of depreciation and obsolescence on existing improvements. New construction in 1926 is estimated at $345,741,680;[5] which, if assessed at something like

in the improvements, made after a transfer, would eliminate a property from comparisons for years subsequent to the change; a transfer after changes in the improvement would eliminate the property from comparisons for years previous to the change in improvement.

[5] U. S. Dept. of Labor, *Building Permits in the Principal Cities of the United States in 1926*. Figures for tax-exempt buildings have been deducted.

36%, would yield an assessed valuation of $124,467,005. But this figure must be reduced by the amount of depreciation and obsolescence on existing improvements, which may be roughly estimated as follows. The total assessed valuation of improvements in 1926 was approximately $1,434,008,131, which, if assessed at 31%, had an actual value in the neighborhood of $4,625,832,585. A 3% depreciation and obsolescence allowance would be $138,774,978. Deducting this from the amount of new construction above, namely, $345,741,680, leaves $206,966,702 as an estimate of the value of net addition to improvements in 1927. Applying to this the 36% assessment ratio for 1927 gives $74,508,012 as the amount by which the increase in the total assessment for 1927 might be accounted for by new construction subject to assessment for the first time in that year. Deducting this amount from the aggregate assessment of $3,247,359,299 leaves $3,172,851,287, as representing the total assessed valuation for 1927, exclusive of new construction. This is a net increase for the year of $364,924,655, or 13% over 1926, compared with the increase of 14.7% indicated by our sample! In other words, on the basis of the average assessment of these 6105 properties,[6] the aggregate assessment of real estate in the entire city of Chicago could have been predicted within 1½% of accuracy.

Relative Weighting of Various Elements in the Sample

An interesting statistical problem, and one that might have a serious bearing upon the result, is the question whether such a sample as these 6000 transfers might be overweighted or underweighted with particular classes of property or with properties in particu-

[6] These results were published in Chicago papers months before the final total, as reported by the Board of Review, was known.

lar sections of the city, on account of variations in real estate activity in different classes of property and different sections of the city. It is obvious that the various classes of property and various sections of the city are included in our sample in exactly the same proportions as they are represented in the total number of real estate transfers in the period.

The weighting of the sample, therefore, resolves itself into the problem whether various classes of property constitute approximately the same proportions of real estate transfers as they constitute of the total amount of taxable property in the city. If in one period of investigation, for example, most of the transfers happened to be vacant land, assessed at 20%, and in another period a majority of the transfers happened to be apartment buildings, assessed at 50%, the results in both cases would be far from representative.

Unfortunately there appears to be no means of determining the proportions in which the various ingredients of property are represented in the total real estate values of a city, except to a limited extent the assessed valuations themselves; and to employ these in determining the distribution of actual values in the present case would be to beg the whole question at the outset. Any attempt to select arbitrarily a given number of cases from each section of the city and each class of property would be nothing but guesswork.

Accordingly, it was decided to take the properties just as they came, trusting to the large number of cases and to the fact that *all* the usable transfers in the period were included, to yield a distribution sufficiently varied to minimize the want of any theoretical principle of weighting.

The results, as indicated by the tables of assessments for townships, districts, and classes of property,

exhibit a broad distribution of transfers, both territorially and with respect to classes of property; and closer analysis of the ingredients discloses a number of factors of safety. For example, since small properties change hands much more rapidly than large, it was apprehended that our sample might be weighted with a disproportionate number of transfers of small properties. And this does prove to be the case; for the sample, as of 1926, includes 2033 properties valued at less than $15,000 compared with only 22 properties valued at $500,000 or over. But the aggregate value of the 2033 small properties was $23,659,300, compared with $24,562,800 for the 22 large properties; so that the two groups go into the final average with approximately equal weights. This may still not be the theoretically correct weighting; but it indicates the compensating factor afforded by the greater value of the one class and the larger number of transfers of the other.

Likewise, it was anticipated, on account of the real estate activity in recent years in portions of West Town and Calumet, that an undue number of cases might be drawn from these sections. But the number of cases drawn from Calumet (Table 7) may be reduced 50%, and the resulting average for 1926 will not be changed by as much as 1/10 of 1%. The number of cases from West Town may be reduced 50%, without changing the average for 1926 by more than 15/100 of 1%. And the number in both West Town and Calumet may be reduced 50%, and the average will be changed by only ¼ of 1%.

Similarly it was anticipated, on account of the activity in apartment buildings in residential sections and in vacant lots in the outlying portions of the city, that a disproportionate number of properties might be drawn from these two classes. But as it turns out,

the number of vacant parcels (Table 9) may be reduced by 100 and the average rate of assessment will be increased by only 1/7 of 1%. The number of apartment buildings included may be reduced by 200, and the average will be reduced by only 1/20 of 1%. Both adjustments may be made—vacant lots reduced by 100 and apartment buildings by 200—and the average will be increased by 1/10 of 1%. Vacant land would have to be eliminated entirely in order to affect the average by as much as 1%.

It is apparent, therefore, that while it would be interesting to know the exact weights which theoretically should be assigned to various sections and classes of property, the conditions affecting assessment are so similar throughout the city that one may make almost any conceivable adjustments in the weighting without affecting the results in any material way. In short, the homogeneity of the data makes any question of weighting of negligible importance.

Effect of Credit on Real Estate Sales Prices

One further problem involved in our method of investigation, and one of vital interest in other aspects than taxation, is the effect of credit on real estate sales prices. It is frequently suggested that in transactions involving credit the buyer necessarily pays a higher price than that at which the property could be purchased for cash; so that sales values which include such cases may differ materially from the "cash value" contemplated in the statutes.

It is impossible to calculate this difference mathematically, because, in the first place, no one but the seller can say how much less he *would accept* for a property, if offered cash; and often the seller himself does not "know his own mind" until confronted by the opportunity. In the second place, even if we knew

how much less a seller would be willing to accept in a sale for cash, that figure may be no nearer an actual "cash value" than any other, for the reason that there may be no purchaser with cash who is willing to pay that price for that particular property; so that what a seller would take becomes only an "asked price," not a market value.

Fortunately, however, our correspondence and interviews with buyers and sellers afforded information which, though it does not enable us to calculate the exact amount of this factor, does make it possible to limit quite definitely its possible range. Of 405 properties for which we were able to secure complete and verified records of financing, the average financial structure involved in the transfer was as follows:

	Portion of Total Sales Value Represented
First Mortgage	46.9%
Second Mortgage or other Junior Lien	9.8%
Owner's Equity	43.3%
	100.0

The owner's equity represents cash or equivalent, so that any difference due to the factor of credit *must lie within the remaining 57% of the value of the property*. But within this 57%, financing would be an element in the price only to the extent that the financing was carried by the seller. To the extent that the buyer financed the purchase through banks, mortgage companies or outside parties who turned cash over to the seller, it *would be a cash sale* so far as the seller was concerned and would represent a cash price.

But let us assume the case with the maximum element of credit. This would be a case in which all the financing is assumed by the seller, and by a seller who must in turn convert his encumbrances into cash, for whatever price he can get for them. The average com-

mission charged for placing first mortgages by banks, mortgage and insurance companies in the period studied was approximately 3%. Mortgages taken back by the sellers have been excluded from this average, because ordinarily no commission is charged directly to these mortgages. But the cost of such financing, to the seller, is represented by the discount he has to accept in reselling the mortgage in the open market. Commissions in individual cases were found to run not infrequently as high as 5, 6, and 7% and occasionally still higher. The average is brought down to 3% by the fact that in some cases, particularly where mortgages were placed by insurance companies on large properties, no commission was charged.

The average commission paid on second mortgages was approximately 12%, on mortgages not taken back by the seller. In the case of mortgages taken back by the seller, no commission, of course, is reported, but the discounts taken by owners who reported a resale of the second mortgage were generally around 10%. We may take the higher rate for purposes of safety.

These rates represent approximately the cost of raising money on first and second mortgage securities, or in other words, *the cost of converting first and second mortgage securities into cash.* Applying these rates to the average portions of the property represented by first and second mortgages respectively, we reach the following result:

Cost of converting 1st mortgage into cash,	3% of 46.9% = 1.4% of sales price
Cost of converting 2nd mortgage into cash,	12% of 9.8% = 1.2% of sales price
Total	2.6% of sales price

In other words, the average cost of credit per property runs around 2-1/2% of the sales price. One would naturally expect a much larger figure than this, because of the exorbitant cost of second mortgage

money in the particular cases with which many of us are familiar. The fact is that, however uncomfortable the cost of second mortgage financing has been to individual borrowers in particular cases, second mortgage and junior financing has actually bulked very small in the average financial "set-up" of properties transferred in Chicago; so that even a high cost applied to only a small portion of the total number of properties, and to only a small segment of the value of these properties, comes down to a very small item in the total market value of real estate. Furthermore, even this small figure, it will be recalled, was based on the assumption that all of the financing of a typical transfer is carried by the seller and must therefore be figured in the selling price of the property. To the extent to which the buyer finances his payment through other agencies, and the seller receives cash, even the above figure of 2.6%, will be still further reduced.

But assuming this figure, 2.6%, without any allowance for the factor just mentioned, this would mean that the sales values in the present study could, at the maximum, overstate "cash values" only by 2 or 3%. No adjustment has been made for this difference, however, for the reason that revenue stamp values were found (p. 14 above) to run 4% *below* confidentially declared sales prices. The one will offset the other with sufficient exactness.

As a matter of fact, in dealing with such materials as sales values and assessments, nothing approaching 100% accuracy is anticipated or essential. And such closeness of results as is indicated above, gratifying as it is to one's scientific sense, would not be necessary to demonstrate the validity of the sample. But the analysis of the financing involved in these real estate transfers has been presented, largely as a factual

contribution to the problem of the effect of credit on real estate prices in general, about which there has been much exaggerated theoretical discussion.

General Accuracy of Results

If the method of investigation has been discussed at undue length, it is because extreme pains have been taken throughout the investigation to develop methods of research that would insure definite and accurate results. It is believed that the degree of precision attained in some of these results will be conceded to have justified the pains taken; and it is a source of some satisfaction to note that the results have been so accepted by the Joint Commission on Real Estate Valuation, by the Board of Assessors, the State Tax Commission,[7] the Joint Legislative Revenue Committee,[8] appointed in 1928, and by the Cook County Courts,[9] the State Supreme Court,[10] and the Federal Court.[11] These results will be presented in the following chapters.

[7] *Tenth Annual Report* of the Tax Commission of Illinois, pp. 160, 161, 164–166, 187–188.

[8] *Report* of Joint Legislative Revenue Committee of Illinois, March, 1929, Letter of Transmittal and pp. 33–35, 45–46, 52–53.

[9] Objection Number 3737, Cook County Court, July Term, 1928; Objection Numbers 19295, 19285, Circuit Court of Cook County, June Term, 1928.

[10] *Douglas v. Harding*, and *Aldrich v. Harding*, decided June 20, 1930.

[11] *Mobile and Ohio R.R. v. Schnipper et al.*, 31 Fed. (2nd) 587 (1928).

CHAPTER IV

THE QUADRENNIAL ASSESSMENT OF 1923

FOR the sake of a clear perspective upon subsequent developments, we will begin with the quadrennial assessment of 1923, as made by the Board of Assessors. Later revisions by the Board of Review, as well as by the Board of Assessors themselves, will be traced in the following chapter. With regard to the assessment of 1923, we have endeavored to ascertain three things: (a) its *general level*, (b) the *range* over which individual assessments were spread, and (c) the *degree of equality* attained.[1]

General Level of Assessment

The average rate of assessment in 1923, as indicated by 5429 properties with a total value of $183,675,400, was found to be 35.4% of actual value.[2] This rate was somewhat surprising, in view of the general belief at the time, based upon statements of the State Tax Commission and decisions of the county courts and the State Supreme Court, that the general rate of assessment throughout the state was approximately 60%.[3]

[1] Brief portions of this and of the two following chapters have appeared in condensed form as Chapter II of the author's *The Tax Situation in Illinois*. They are reproduced here as a necessary part of the complete record.

[2] Prior to 1927, the statutes required the assessment of property, for purposes of taxation, at 50 per cent of its full value. Throughout the present study, however, all figures have been converted into full value equivalent.

[3] See *Fourth Annual Report* of the Tax Commission of Illinois, 1922, p. 10; *People v. Stewart*, 315, Ill. 25 (1924); and the *Tax Situation in Illinois*, pp. 72–73; 82.

Range of Assessments

Surprising as was the average rate of assessment, the range over which assessments were spread proved to be still more astonishing. This range is indicated in Table 1 below, disclosing assessments ranging from a fraction of 1% to more than 100%. The only apparent concentration is in the range from 20 to 40%; but this range, it will be observed, permits a variation of 100% in its extremes and can therefore scarcely be called concentration at all.

Deviation from Uniformity

Even a wide *maximum spread* of individual assessments may not entirely vitiate an assessment, if the great bulk of properties are still assessed roughly in the neighborhood of some uniform level. A glance at the table is sufficient to indicate that this was not the case. But in order to measure accurately the *degree* by which the assessment failed of such uniformity, the results are illustrated in Chart 1. In this and the following charts, vertical distances represent the ratio of assessments to sales values; the base line represents the total number of properties, in the form of percentages from 0 to 100%. The curve, therefore, is intended to suggest how the results would look if all properties were arranged in order of assessment, from the highest assessment at the upper left-hand corner of the chart to the lowest assessment at the lower right-hand corner. Technically, this is a cumulative, frequency or "more than" curve, with some variation from the usual form of charting such a curve in order to make it possible to represent a uniform assessment by a horizontal line across the chart.

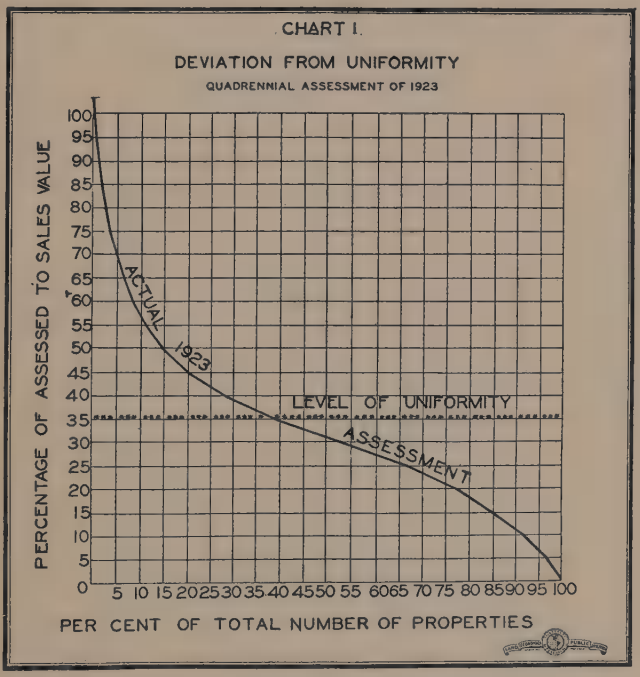
The chart indicates, for example, that 5% of all properties are assessed at 70% of value or over; 10% of all properties at 57%, or over; and 15% of all prop-

Table I

Quadrennial Assessment of 1923
Range of Assessments in Relation to Sales Value

Ratio of Assessed to Sales Value	Number of Properties	Percentage of Total Number of Properties	Value of Property Represented	Percentage of Total Value
1 to 5%	191	3.5	$ 10,147,100	5.5
6 to 10	276	4.9	7,833,700	4.3
11 to 15	356	6.6	10,908,400	6.0
16 to 20	411	7.6	12,965,800	7.1
21 to 25	573	10.6	18,714,900	10.2
26 to 30	755	13.9	20,356,100	11.1
31 to 35	746	13.8	20,646,100	11.2
36 to 40	613	11.3	19,937,600	10.9
41 to 45	415	7.7	15,464,300	8.4
46 to 50	290	5.4	13,020,700	7.1
51 to 55	187	3.4	6,324,100	3.5
56 to 60	144	2.7	4,693,700	2.6
61 to 65	109	2.0	3,922,800	2.1
66 to 70	79	1.4	5,393,900	2.9
71 to 75	69	1.3	2,931,800	1.5
76 to 80	52	.9	2,656,600	1.4
81 to 85	42	.8	2,269,300	1.3
86 to 90	34	.6	978,400	.5
91 to 95	28	.5	1,660,700	.9
96 to 100	26	.5	1,132,500	.6
101 and over	33	.6	1,716,600	.9
Total	5,429	100.0	$183,675,400	100.0

erties at 50% or over. At the lower right-hand corner, on the other hand, the chart indicates that the lowest 5% of all properties are assessed at less than 7% of value; 10% of all properties at less than 12%, and so forth. Or the chart may be read in 5% groups, indicating that the highest group of properties are assessed at from 70 to over 100%; the next 5% of



properties at 57 to 70%; the lowest 5% of properties at 1 to 7%; the next lowest at 7 to 12%, and so forth.

The chart will serve as a simple means of visualizing the difference between a uniform assessment and the assessment as actually made. The dotted horizontal line indicates the average rate of assessment of all properties in 1923, namely, 35.4%. This rate has

been designated the "*level of uniformity*" for that year, because this is the rate of assessment (and this is the *only* rate), at which all properties could have been assessed uniformly and still have yielded exactly the same aggregate assessment and revenue. That is, if all properties assessed at higher rates had been brought down to this level, and all properties assessed at lower rates brought up to this level, equality would have been attained without changing the aggregate amount of assessment by a single dollar.

No assessment can be expected to be absolutely uniform; but nevertheless the degree to which the line of actual assessment approaches or diverges from this level indicates graphically the degree of equality or inequality in the assessment. Needless to say, the two lines on the chart suggest little similarity, the curve of actual assessment indicating scarcely a passing acquaintance with any level of uniformity, except at the point of meeting and departure.

With the aid of the chart it is possible to apply a still more accurate measurement to the assessment. If a horizontal line at any level (in this case, at a level of 35.4%) represents 100% of equality, the degree of equality attained by an assessment may be measured mathematically by the deviation of the actual curve from the horizontal line. *The curve for 1923 has an average percentage deviation of 40 from the level of uniformity.*

An assessment at an average rate of 35.4%, but with a deviation of 40%, means that properties in Chicago with a value of $100,000 were assessed in 1923 at an average of $35,400. But this average figure was reached not by assessing all of these properties at or near that figure, but by assessing half of them at 40% less than that amount, namely, $21,240; and the other half at 40% more than that amount, namely,

$49,560, or at some corresponding pairs of figures. The tax rate in Chicago is approximately 5% on assessed valuation; which means that under such an assessment one of these properties would pay only $1062 in taxes, while the other property of equal value paid $2478!

Territorial Inequalities

Townships

After measuring the general range and distribution of assessments, it was important to ascertain how these inequalities were distributed territorially throughout the city. For this purpose all properties have been classified within the eight "towns" lying wholly within the city, and including that portion of Calumet which is now within the city limits. Legally, the Board of Assessors is a single body, whose jurisdiction is the County. As a matter of administrative policy—and of practical politics, it has long been the custom to assign to each assessor one or more "towns," within which he virtually represents the taxing authority and exercises such political suzerainty as may be associated with that power. For this reason the differences in level of assessment in the various "towns" might well be designated "jurisdictional," as well as merely territorial. These differences are indicated in Table 2 and represented in Chart 2 below.

Districts

In order to trace further these territorial inequalities, the city has been divided into fifty community districts. These are not wards or political subdivisions of any kind but are popularly known neighborhood districts, which Chicago people will have no difficulty in recognizing. The reader may locate them on the maps of Chicago on pp. 68 and 69. The average rate

TABLE 2
THE QUADRENNIAL ASSESSMENT OF 1923
BY TOWNSHIPS

Townships Arranged in Order of Ratio of Assessed to Sales Value	Number of Properties	Value of Property	Average Ratio of Assessed to Sales Value
South Town	217	$ 19,733,900	55.0%
South Town (excluding the Loop)	193	10,870,900	40.5
North Town	216	9,191,900	40.4
Hyde Park	1,058	40,821,000	34.8
West Town	1,612	42,986,200	34.7
Rogers Park	136	6,019,600	34.4
Lake View	739	29,323,100	32.2
Jefferson	616	15,526,700	30.5
Lake	714	18,185,200	28.0
Calumet	121	1,887,800	8.7
Total	5,429	$183,675,400	35.4

of assessment within each district has been computed and is indicated in Table 3. The result is shown in Chart 3, with the exception of districts for which less than twelve transfers were available and for which it was felt therefore that an average might not be sufficiently representative.

In Chart 3, the districts are arranged as nearly as possible in geographical order, from north to south. The reader will not miss the general resemblance to the city's sky line itself.

It will be noted that, in contrast with the situation in many other cities, the areas of heaviest assessment are concentrated in the downtown sections, the areas of lighter assessment ranging throughout the outlying portions of the city.

Inequalities Among Classes of Property

After tracing the territorial distribution of inequalities, all properties have been classified under

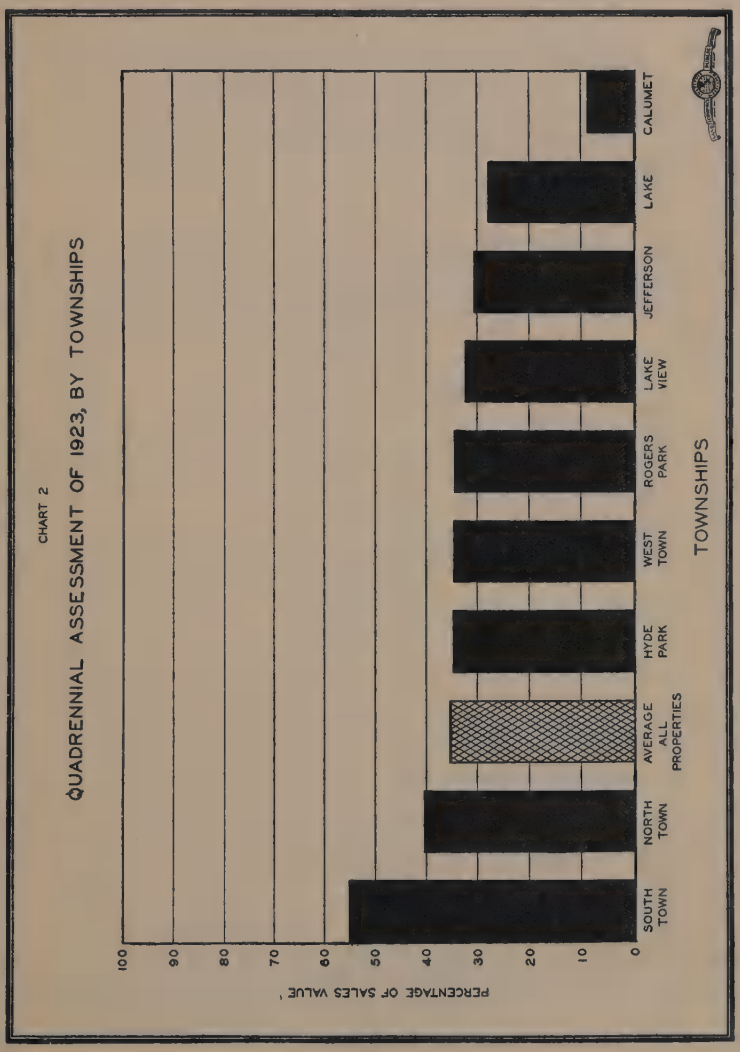


CHART 2
QUADRENNIAL ASSESSMENT OF 1923, BY TOWNSHIPS
PERCENTAGE OF SALES VALUE
0
10
20
30
40
50
60
70
80
90
100
SOUTH TOWN
NORTH TOWN
AVERAGE ALL PROPERTIES
HYDE PARK
WEST TOWN
ROGERS PARK
LAKE VIEW
JEFFERSON
LAKE
CALUMET
TOWNSHIPS

Table 3

Quadrennial Assessment of 1923
By Districts

Districts Arranged in Order of Ratio of Assessed to Sales Value (Excluding districts represented by less than 12 properties)	Number of Properties	Value of Property	Average Ratio of Assessed to Sales Value
1. Loop	24	$ 8,863,000	72.8%
2. 22nd Street Post Office	27	981,000	63.1
3. Canal Street Post Office	41	1,658,400	49.6
4. Lincoln Park	89	3,259,800	49.2
5. Post Office "D"	82	4,857,500	47.4
6. Armour	76	2,643,400	46.9
7. Post Office "C"	55	1,732,100	46.4
8. Chicago Avenue Post Office	77	5,838,500	44.7
9. Kenwood	125	6,114,100	44.6
10. Jackson Park	173	7,698,500	39.4
11. 51st Street Post Office	124	3,956,400	39.2
12. Hyde Park	179	9,633,800	39.2
13. Englewood	186	5,712,900	37.7
14. Stock Yards	40	1,672,800	37.6
15. Edgewater	213	9,677,300	36.7
16. Humboldt Park	243	5,646,500	35.4
17. Rogers Park	146	6,321,100	33.8
18. Garfield Park	240	6,600,200	33.7
19. Logan Square	191	4,450,000	33.5
20. Douglas Park	50	1,291,800	33.4
21. Hawthorne	261	6,056,400	32.5
22. Wicker Park	133	2,907,700	32.1
23. Lake View	269	9,303,300	31.4
24. Ravenswood	373	12,379,900	31.2

TABLE 3 (con't.)

Districts	Number of Properties	Value of Property	Average Ratio of Assessed to Sales Value
25. Jefferson	38	$ 970,500	30.5%
26. McKinley Park	57	1,082,600	30.1
27. Austin	195	5,093,300	29.6
28. Ogden Park	79	1,721,300	28.9
29. North Halsted	127	4,988,500	28.4
30. Cragin	110	2,018,800	28.3
31. Irving Park	192	4,819,800	28.0
32. Grand Crossing	351	10,943,100	25.3
33. Windsor Park	75	2,052,900	25.3
34. Pullman	46	1,302,200	24.1
35. Pilsen	166	3,782,500	23.4
36. Adams Street Post Office	14	4,039,500	21.8
37. Elsdon	31	540,800	21.7
38. Montclare	12	295,500	21.7
39. South Chicago	33	676,700	19.9
40. Auburn Park	244	5,020,100	18.4
41. Dauphin Park	47	985,900	18.3
42. Chicago Lawn	129	3,042,900	15.5
43. West Pullman	14	176,000	13.1
44. Washington Heights	34	568,600	11.9
Districts Represented by less than 12 Properties			
East Side	3	43,700	46.9
Hegewisch	1	28,500	36.8
Dunning	5	53,300	28.1
Morgan Park	7	128,000	15.6
Norwood Park	2	44,000	3.2
Total	5,429	$183,675,400	35.4

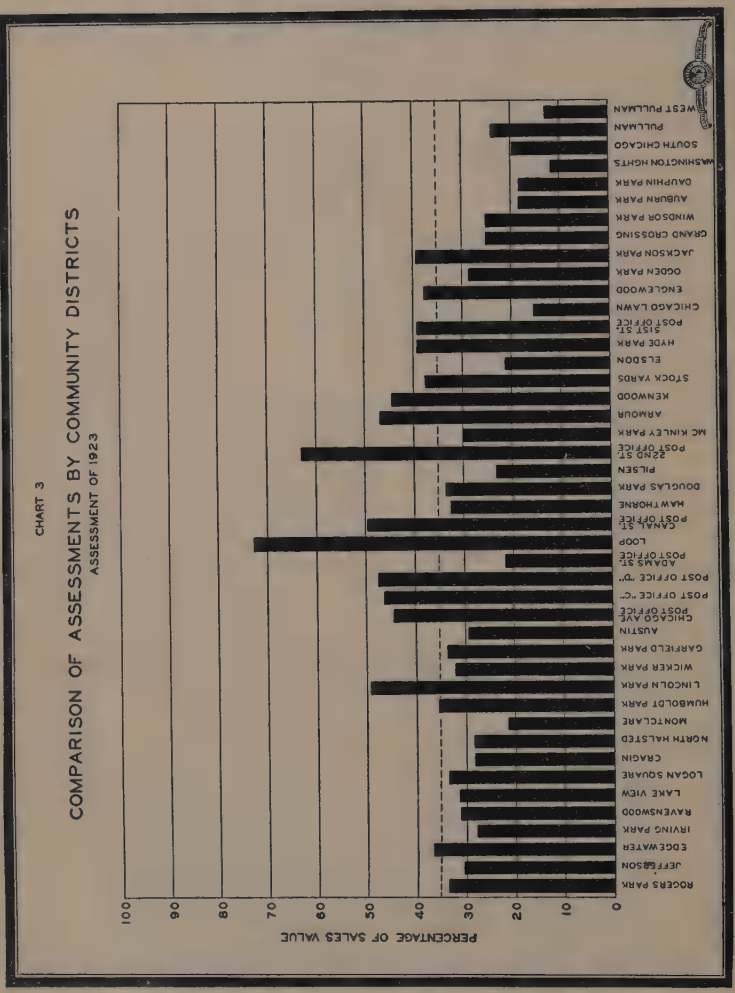


CHART 3
COMPARISON OF ASSESSMENTS BY COMMUNITY DISTRICTS
ASSESSMENT OF 1923
PERCENTAGE OF SALES VALUE
0
10
20
30
40
50
60
70
80
90
100
ROGERS PARK
JEFFERSON
EDGEWATER
IRVING PARK
RAVENSWOOD
LAKE VIEW
LOGAN SQUARE
CRAGIN
NORTH HALSTED
MONTCLARE
HUMBOLDT PARK
LINCOLN PARK
WICKER PARK
GARFIELD PARK
AUSTIN
CHICAGO AVE POST OFFICE
POST OFFICE "C"
POST OFFICE "D"
ADAMS ST. POST OFFICE
LOOP
CANAL ST. POST OFFICE
HAWTHORNE
DOUGLAS PARK
PILSEN
22ND ST. POST OFFICE
MC KINLEY PARK
ARMOUR
KENWOOD
STOCK YARDS
ELSDON
HYDE PARK
51ST ST. POST OFFICE
CHICAGO LAWN
ENGLEWOOD
OGDEN PARK
JACKSON PARK
GRAND CROSSING
WINDSOR PARK
AUBURN PARK
DAUPHIN PARK
WASHINGTON HGHTS
SOUTH CHICAGO
PULLMAN
WEST PULLMAN

ten general types, with a view to determining whether the assessment tended to favor or penalize any particular classes of property. This subject will be discussed more fully in connection with the assessment of 1927. For the present, the situation in 1923 will merely be indicated in Table 4 and illustrated in Chart 4.

The results here tend to confirm the exhibit by districts above, in the fact that those types of property which are characteristic of the downtown sections are more heavily assessed than those characteristic of the outlying sections. Vacant land is assessed at little more than half the rate of assessment of improved property.

More intensive analyses of the results of the 1923 assessment have been made, including the range of assessments and deviation from uniformity when measured in terms of value of property rather than number of properties, the range and deviation *within* each of the nine townships of the city and within a number of the smaller "districts," and including a comparison of assessments of the larger and smaller properties. But on account of the extension of our study through the quadrennial assessment of 1927 and the reassessment just completed, the discussion of prior assessments has been greatly condensed; and any more extended discussion will be reserved for the recent assessments.

Summary

In summary, however, it may be said that the investigation of the 1923 assessment disclosed that the average rate of assessment in Chicago was not 60% but 35% of full value; that this assessment showed an astonishing degree of inequality, with assessments ranging from 1 to over 100%, and with an *average* deviation from uniformity of 40%; that the average rate of assessment for whole townships ranged

Table 4

Quadrennial Assessment of 1923
By Classes of Property

Classes of Property Arranged in Order of Ratio of Assessed to Sales Value	Number of Properties	Value of Property	Average Ratio of Assessed to Sales Value
1. Office and Bank Buildings	23	$ 3,441,200	59.9%
2. Industrial	127	13,381,700	43.5
3. Commercial—Wholesale and Retail	496	22,243,000	39.9
4. Miscellaneous and Unclassified	318	11,960,400	38.7
5. Apartment Buildings	1,368	61,578,100	37.4
6. Hotels, Theatres and Amusements	32	2,841,000	37.2
7. Combination Business and Residence	562	20,056,000	34.6
8. Two-flats and Duplexes	610	9,667,000	32.1
9. Single-family Residences	1,039	17,500,900	31.6
ALL IMPROVED PROPERTIES	4,575	162,669,300	37.5
10 Vacant Land	854	21,006,100	19.7
ALL PROPERTIES	5,429	$183,675,400	35.4

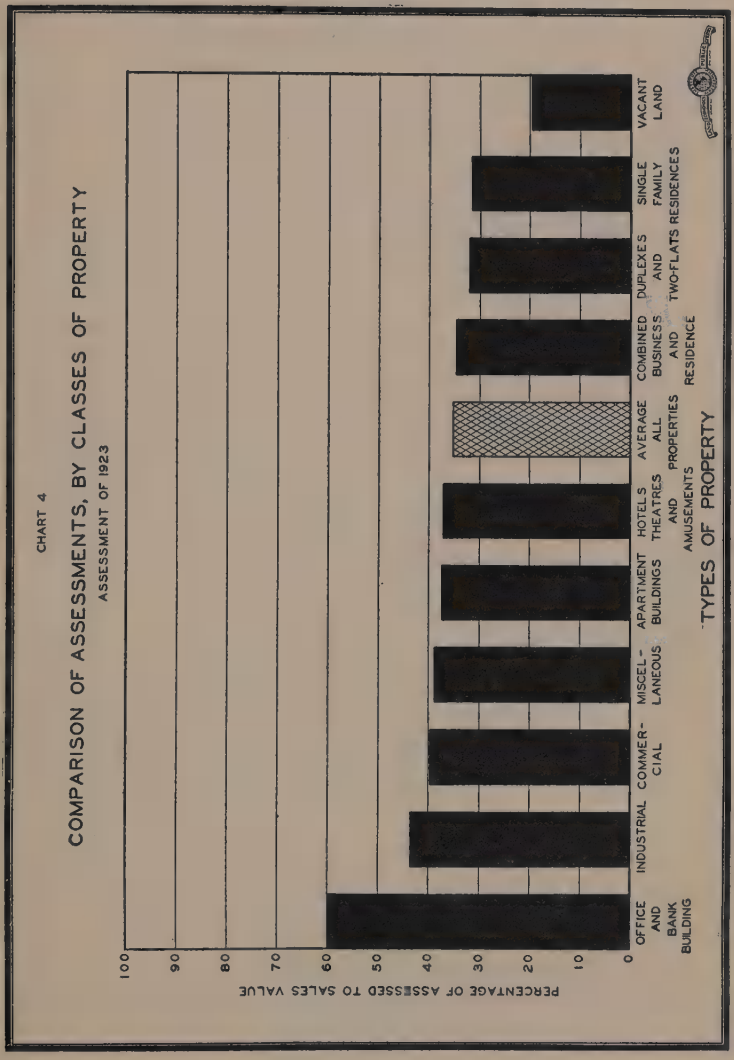


CHART 4
COMPARISON OF ASSESSMENTS, BY CLASSES OF PROPERTY
ASSESSMENT OF 1923
PERCENTAGE OF ASSESSED TO SALES VALUE
100
90
80
70
60
50
40
30
20
10
0
OFFICE AND BANK BUILDING
INDUSTRIAL
COMMER-CIAL
MISCEL-LANEOUS
APARTMENT BUILDINGS
HOTELS THEATRES AND AMUSEMENTS
AVERAGE ALL PROPERTIES
COMBINED BUSINESS AND RESIDENCE
DUPLEXES AND TWO-FLATS
SINGLE FAMILY RESIDENCES
VACANT LAND
TYPES OF PROPERTY

from 9% in Calumet to 55% in South Town, and for whole districts from 12% to 60 and 70%; that the higher assessments were found in the downtown sections and the lower assessments in the more outlying sections; and that, in general, the more highly properties are improved, the higher has been the rate at which they were assessed, vacant land being assessed at an average rate of 20%, homes at 32%, commercial and office buildings at 40 to 60%.

It will be conceded that a general reassessment of property in a city as large as Chicago is a huge task under any conditions. When this reassessment has to be made all at once, at the beginning of a quadrennium, within the limited time allowed for its completion and with the temporary and untrained staff that must be got together for the purpose, its difficulty is magnified many times. And while nothing could justify the preposterous inequalities in the assessment of 1923, much might be said in explanation of them.

But in the four years following a quadrennial assessment, the Board of Assessment, Board of Review, and the courts have ample time to rectify any serious defects resulting from the haste and confusion of the initial assessment; and in the following chapter the results of four years of equalization under these corrective agencies will be traced.

CHAPTER V

EQUALIZATION, 1923–1926

THE powers of the Board of Assessors and Board of Review with reference to revision of assessments during a quadrennium are briefly as follows. The Board of Assessors is prohibited from revising assessments except in cases of physical change, due to flood, fire, or other cause, and in cases of alteration of the property. But the statutes authorize them to "correct errors," and they have interpreted this power broadly in making actual revision of their own previous assessments. They are further authorized to assess *de novo* new buildings and improvements and alterations in existing improvements which become subject to assessment for the first time during the quadrennium. Both of these powers, the correction of errors and the assessment of new improvements, embrace a sufficient number of properties to materially affect the character of the general assessment.

The Board of Review is given practically unlimited powers of revision, either on complaint of aggrieved taxpayers or on its own initiative. It is authorized to define standards of assessment, to establish its own procedure, and to determine the final assessments of specific properties, subject to notice and hearing in the case of *increases* in assessment. Under this continuous process of review and rectification by the Board of Review, the general character of the assessment should show continual improvement as the assessment moves along through the four years of the quadrennium.

The effect of this process upon the general level of assessment is shown in Table 5 below.

TABLE 5

GENERAL TREND OF ASSESSMENT, 1923–26

	Average Ratio of Assessed to Sales Value
1923, Quadrennial assessment as made by Board of Assessors	35.4%
Quadrennial assessment as revised by Board of Review	34.5%
1924, Final Board of Review figures	31.9%
1925, Final Board of Review figures	31.2%
1926, Final Board of Review figures	31.3%

This brief chronicle of assessment indicates that the general result of revision has been uniformly in the direction of reduction of assessments. And this means an absolute reduction, independent of any relative reduction that may have been brought about by increases in real estate values during the period, since we are speaking in terms of the same sales values throughout the entire study. In concrete form, it means that on the average a property assessed in 1923 at $35,400 was assessed in 1926 at $31,300.

Range of Assessment

The range of assessments at the end of the quadrennium is indicated in Table 6. A comparison of this table with the corresponding tabulation for 1923 (p. 28) will suggest that, so far as equalization is concerned, it would be difficult to determine whether the assessment was worse at the beginning of the quadrennium or at the end of it.

Deviation from Uniformity

In order to measure more accurately the results of equalization throughout the quadrennium, the curve of deviation from uniformity for 1923 (p. 29)

TABLE 6
RANGE OF ASSESSMENT
AT END OF QUADRENNIUM, 1926

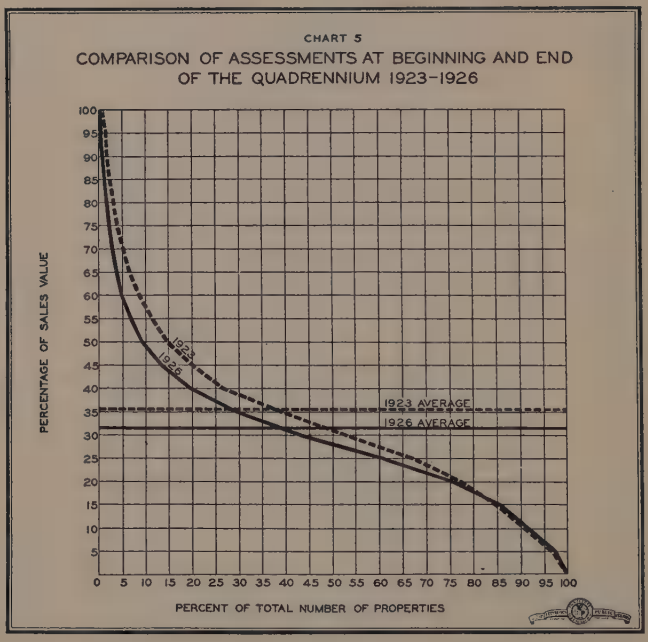
Percentage of Sales Value	Number of Properties	Value of Property	Percent of Total Number of Properties	Percent of Total Value of Property
1– 5	174	$ 9,840,000	2.8	4.6
6–10	267	8,238,500	4.4	3.8
11–15	457	16,750,900	7.5	7.7
16–20	614	19,390,600	10.0	8.9
21–25	927	33,520,200	15.2	15.3
26–30	1003	31,824,600	16.5	14.5
31–35	855	31,687,900	14.0	14.6
36–40	594	20,318,700	9.7	9.3
41–45	403	12,669,800	6.6	5.8
46–50	252	9,958,300	4.1	4.5
51–55	139	4,763,900	2.3	2.2
56–60	116	3,915,800	1.9	1.8
61–65	73	3,694,400	1.2	1.7
66–70	62	3,530,000	1.0	1.6
71–75	41	895,300	.7	.4
76–80	35	2,314,500	.6	1.0
81–85	29	1,141,800	.5	.5
86–90	21	520,900	.3	.2
91–95	17	695,500	.3	.3
96–100	13	1,697,100	.2	.7
Over 100	13	1,320,200	.2	.7
Total	6105	$218,688,900	100.0	100.0

has been brought forward and compared, in Chart 5, with a similar curve for 1926.

It requires close scrutiny indeed to determine whether the one curve is any nearer to uniformity than the other. Mathematical measurement does indicate an average deviation of 37.7% for 1926, compared with the deviation of 40.4% for 1923.

To any one familiar with tax administration it must seem well nigh impossible that a curve such as that for the quadrennial assessment of 1923 could come through four years of complaint, hearings, review, and litigation without some flattening out, for the reason that taxpayers located on the upper reaches

of the curve must presumably press complaints of over-assessment, with little difficulty in proving it, and must thereby effect a lowering and flattening of that portion of the curve. This process alone, should materially lessen the average deviation of the curve as a whole—unless new elements of inequality are injected into the curve elsewhere. Since no such les-



sening of the amount of deviation has occurred, the mere shape of the curve for 1926 would suggest to tax students that new elements of inequality must have been injected in the process of review and revision itself. If this seems to be pressing statistical interpretation too far, the reader will follow with interest the more specific results presented below.

Territorial Inequalities

Townships

The average level of assessment in the various "towns" at the end of the quadrennium is indicated in Table 7 and illustrated in Chart 6.

TABLE 7
ASSESSMENT OF 1926
BY TOWNSHIPS

Townships Arranged in Order of Ratio of Assessed to Sales Value	Number of Properties	Value of Properties	Average Ratio of Assessed to Sales Value
South Town	211	$ 18,536,900	48.3%
South Town, excluding Loop	190	10,603,900	33.5
Rogers Park	167	9,547,300	33.6
North Town	226	12,945,400	33.1
Hyde Park	1145	46,821,400	30.3
West Town	1672	46,414,700	30.0
Jefferson	894	22,859,300	29.9
Lake View	761	36,588,700	28.5
Lake	882	22,672,800	28.5
Calumet	147	2,302,400	9.9
Total	6105	$218,688,900	31.3

It will be observed that here, as in 1923, the assessors are able to maintain a much higher degree of equality between "jurisdictions" than between districts, classes of property, and individual taxpayers within the various jurisdictions. With the conspicuous exception of Calumet, the glaring inequalities are *within*, not *between*, jurisdictions.

Districts

In Table 8, the average level of assessment by neighborhood districts is shown for 1923 and 1926. The result for 1926 is illustrated in Chart 7 and is visualized still more graphically in the Assessment

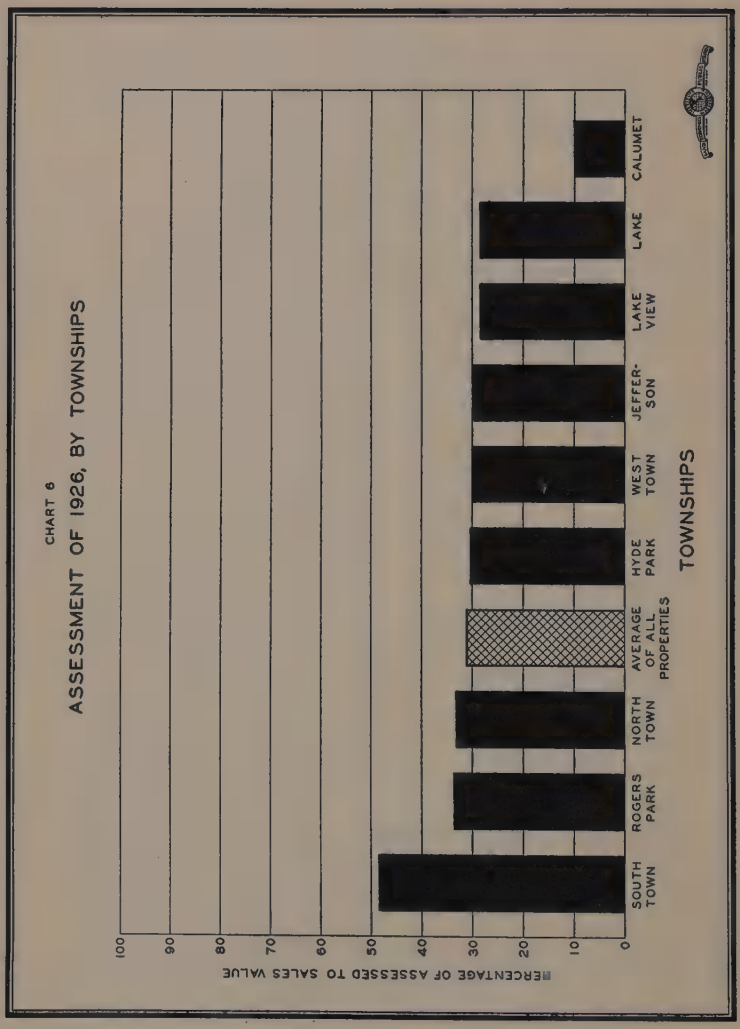


CHART 6
ASSESSMENT OF 1926, BY TOWNSHIPS
PERCENTAGE OF ASSESSED TO SALES VALUE
100
90
80
70
60
50
40
30
20
10
0
SOUTH TOWN
ROGERS PARK
NORTH TOWN
AVERAGE OF ALL PROPERTIES
HYDE PARK
WEST TOWN
JEFFER-SON
LAKE VIEW
LAKE
CALUMET
TOWNSHIPS

Table 8
Assessment of 1926
By Community Districts

Districts	Average Rate of Assessment	
Arranged in Order of Assessment in 1923	1923	1926
1. Loop	72.8%	68.0%
2. 22nd St. Post Office	63.1	60.8
3. Canal St. Post Office	49.6	42.4
4. Lincoln Park	49.2	37.4
5. Post Office "D"	47.4	34.5
6. Armour	46.9	34.9
7. Post Office "C"	46.4	38.8
8. Chicago Avenue Post Office	44.7	38.0
9. Kenwood	44.6	37.5
10. Jackson Park	39.4	31.6
11. 51st St. Post Office	39.2	33.3
12. Hyde Park	39.2	33.8
13. Englewood	37.7	38.7
14. Stock Yards	37.6	32.2
15. Edgewater	36.7	32.4
16. Humbolt Park	35.4	31.0
17. Rogers Park	33.8	33.2
18. Garfield Park	33.7	29.5
19. Logan Square	33.5	34.1
20. Douglas Park	33.4	28.2
21. Hawthorne	32.5	28.4
22. Wicker Park	32.1	29.5
23. Lake View	31.4	26.4
24. Ravenswood	31.2	29.0
25. Jefferson	30.5	27.4
26. McKinley Park	30.1	26.1
27. Austin	29.6	26.6
28. Ogden Park	28.9	25.4
29. North Halsted	28.4	27.4
30. Cragin	28.3	26.1
31. Irving Park	28.0	26.6
32. Grand Crossing	25.3	26.0
33. Windsor Park	25.3	26.7
34. Pullman	24.1	24.5
35. Pilsen	23.4	24.3
36. Adams St. Post Office	21.8	19.9
37. Elsdon	21.7	25.4
38. Montclare	21.7	25.6
39. South Chicago	19.9	19.8
40. Auburn Park	18.4	21.0
41. Dauphin Park	18.3	18.0
42. Chicago Lawn	15.5	24.2
43. West Pullman	13.1	12.4
44. Washington Heights	11.9	12.5

TABLE 8 (cont.)

Districts	Average Rate of Assessment	
Arranged in order of Assessment in 1923	1923	1926
Districts Represented by less than 12 Properties		
East Side	46.9%	46.9%
Hegewisch	36.8	36.8
Dunning	28.1	23.8
Morgan Park	15.6	15.2
Norwood Park	3.2	5.0
Average rate of assessment	35.4	31.3

Map of Chicago for 1926, which for purposes of convenient comparison with 1927 has been placed on page 68.

Inequalities Among Classes of Property

In Table 9, the average rates of assessment by classes of property are shown for 1923 and 1926; and the result for 1926 is illustrated in Chart 8. In this chart, the full height of the bars represents the original assessment, as made by the Board of Assessors in 1923. The solid black portions represent the assessment at the end of the quadrennium in 1926. The cross-hatched portions, therefore, measure accurately the change made in each class of property in the process of revision throughout the four-year period.

The striking feature of this exhibit is the low assessment of vacant land compared with that of improved property. It has been conjectured that this might be a natural result in the assessment of subdivision property and outlying lots, where values have not been stabilized, and where an assessor may well permit his appraisals to lag considerably behind current sales prices. In order to test this possibility, vacant

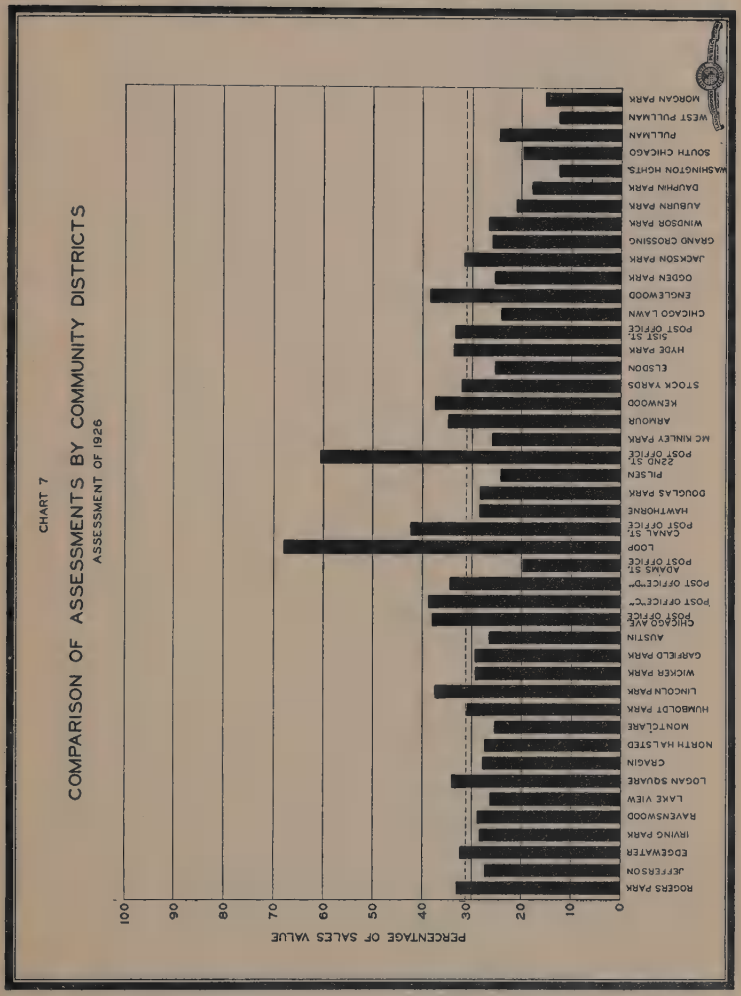


CHART 7
COMPARISON OF ASSESSMENTS BY COMMUNITY DISTRICTS
ASSESSMENT OF 1926
PERCENTAGE OF SALES VALUE
0
10
20
30
40
50
60
70
80
90
100
ROGERS PARK
JEFFERSON
EDGEWATER
IRVING PARK
RAVENSWOOD
LAKE VIEW
LOGAN SQUARE
CRAGIN
NORTH HALSTED
MONTCLARE
HUMBOLDT PARK
LINCOLN PARK
WICKER PARK
GARFIELD PARK
AUSTIN
CHICAGO AVE POST OFFICE
POST OFFICE "C"
POST OFFICE "D"
ADAMS ST. POST OFFICE
LOOP
CANAL ST. POST OFFICE
HAWTHORNE
DOUGLAS PARK
PILSEN
22ND ST. POST OFFICE
MC KINLEY PARK
ARMOUR
KENWOOD
STOCK YARDS
ELSDON
HYDE PARK
51ST ST. POST OFFICE
CHICAGO LAWN
ENGLEWOOD
OGDEN PARK
JACKSON PARK
GRAND CROSSING
WINDSOR PARK
AUBURN PARK
DAUPHIN PARK
WASHINGTON HGHTS.
SOUTH CHICAGO
PULLMAN
WEST PULLMAN
MORGAN PARK

TABLE 9
ASSESSMENT OF 1926
BY CLASSES OF PROPERTY

Classes of Property Arranged in Order of Assessment in 1923	Number of Properties		Average Rate of Assessment	
	1923	1926	1923	1926
1. Office Buildings	23	26	59.9%	53.4%
2. Industrial	127	138	43.5	38.1
3. Commerical—wholesale and retail	496	488	39.9	36.3
4. Miscellaneous and Unclassified	318	284	38.7	30.9
5. Apartment Buildings	1368	1648	37.4	32.3
6. Hotels, Theatres and Amusements	32	35	37.2	31.2
7. Combination Business and Residence	562	585	34.6	29.5
8. Two-flats and Duplexes	610	857	32.1	29.4
9. Single-Family Residence	1039	1327	31.6	27.7
10. Vacant Land	854	717	19.7	19.7
Total	5429	6105	35.4	31.3

and improved properties have been separately classified in each of the neighborhood districts indicated on the map of the city (p. 68), and the average rates of assessment for each class of property in each district is shown in Table 10. Since our results are based on sales values, it is impossible, in the case of improved property, to undertake to separate the land value from the value of improvements; so that comparisons can be made only between vacant land, on the one hand, and improved property as a whole on the other. The reader is cautioned against attaching undue significance to the rates of assessment for districts in which only one or two transfers of vacant land occur, although the figures have necessarily been retained in the tabulation in order to include their influence in the totals.

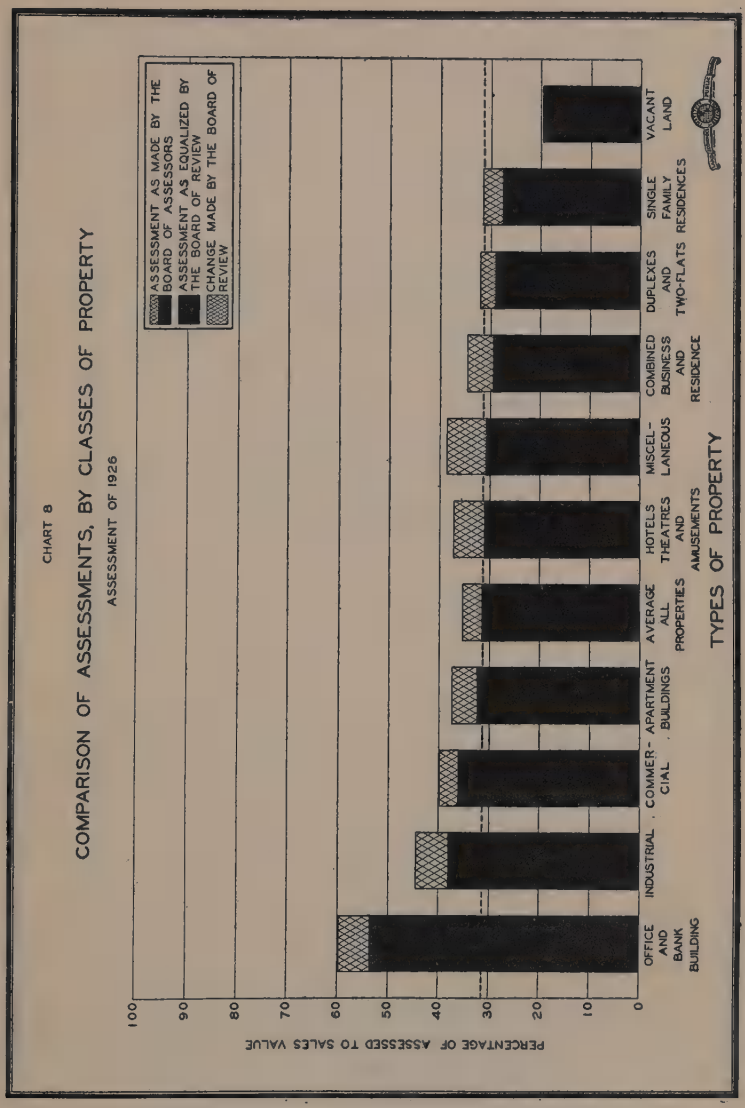


CHART 8
COMPARISON OF ASSESSMENTS, BY CLASSES OF PROPERTY
ASSESSMENT OF 1926
ASSESSMENT AS MADE BY THE BOARD OF ASSESSORS
ASSESSMENT AS EQUALIZED BY THE BOARD OF REVIEW
CHANGE MADE BY THE BOARD OF REVIEW
PERCENTAGE OF ASSESSED TO SALES VALUE
100
90
80
70
60
50
40
30
20
10
0
OFFICE AND BANK BUILDING
INDUSTRIAL
COMMERCIAL
APARTMENT BUILDINGS
AVERAGE ALL PROPERTIES
HOTELS THEATRES AND AMUSEMENTS
MISCELLANEOUS
COMBINED BUSINESS AND RESIDENCE
DUPLEXES AND TWO-FLATS
SINGLE FAMILY RESIDENCES
VACANT LAND
TYPES OF PROPERTY

Table 10

Comparison of Assessment of Improved Property and Vacant Land Assessment of 1926—By Districts

Districts	Number of Properties		Value of Property Represented		Average Ratio of Assessed to Sales Value	
	Improved	Unimproved	Improved	Unimproved	Improved	Unimproved
1. Loop	19	2	6,372,000	1,561,000	70.2%	58.8%
2. 22nd St. Post Office	22	2	831,500	54,000	59.6	78.3
3. Canal St. Post Office	39	—	1,584,900	—	42.4	—
4. Post Office "C"	48	5	1,628,600	68,500	38.8	40.0
5. Englewood	173	19	5,778,000	437,400	38.6	40.0
6. Chicago Avenue Post Office	76	4	6,124,000	568,500	40.2	15.1
7. Kenwood	123	4	5,912,900	252,000	37.9	27.1
8. Lincoln Park	88	2	3,214,800	55,500	37.2	51.0
9. Armour	74	—	2,473,900	—	34.9	—
10. Post Office "D"	78	2	4,701,000	44,000	34.7	13.2
11. Logan Square	210	9	5,433,200	136,400	34.1	32.0
12. Hyde Park	170	4	10,185,100	173,000	33.9	20.8
13. 51st St. Post Office	129	2	4,015,200	24,500	33.3	29.4
14. Rogers Park	147	30	9,093,200	755,600	34.6	16.4
15. Edgewater	198	12	9,217,700	774,500	32.3	32.5
16. Stock Yards	36	2	1,579,800	43,000	32.8	10.2
17. Jackson Park	165	5	7,635,700	69,800	31.6	28.1
18. Humbolt Park	252	3	6,513,800	40,500	30.9	36.3
19. Garfield Park	258	6	7,507,800	132,000	29.5	27.1
20. Wicker Park	136	1	3,289,700	18,000	29.6	11.1
21. Ravenswood	425	36	15,775,200	807,300	29.7	15.6
22. Irving Park	241	39	6,044,800	713,200	29.9	17.8
23. Hawthorne	277	3	6,831,400	54,500	28.6	8.4

TABLE 10 (con't.)

Districts	Number of Properties		Value of Property Represented		Average Ratio of Assessed to Sales Value	
	Improved	Unimproved	Improved	Unimproved	Improved	Unimproved
24. Douglas Park	51	—	1,310,800	—	28.2%	— %
25. Cragin	160	12	3,076,200	219,000	28.8	17.6
26. Jefferson	70	9	1,726,800	147,000	27.1	30.7
27. North Halsted	129	2	7,555,500	74,000	27.5	15.8
28. Windsor Park	58	29	2,137,700	825,700	30.0	18.1
29. Austin	217	11	5,965,100	288,500	26.7	24.6
30. Lake View	276	3	14,838,900	67,500	26.5	9.5
31. McKinley Park	63	4	1,093,600	94,000	27.2	13.8
32. Grand Crossing	293	118	11,037,100	3,644,800	30.4	12.6
33. Montclare	18	3	450,800	44,000	26.5	15.7
34. Ogden Park	78	8	1,845,000	145,400	25.8	21.3
35. Elsdon	38	11	576,800	213,000	28.5	17.2
36. Pullman	37	11	1,227,200	218,000	26.3	14.1
37. Pilsen	107	7	2,506,900	95,200	24.9	8.7
38. Chicago Lawn	131	71	3,230,200	1,478,600	30.4	10.7
39. Auburn Park	161	138	3,709,500	2,769,900	29.1	10.1
40. Adams Street Post Office	14	—	4,039,500	—	19.9	—
41. South Chicago	26	18	561,000	307,700	23.1	13.7
42. Dauphin Park	15	43	343,700	877,200	28.9	13.6
43. Morgan Park	12	—	191,600	—	15.2	—
44. Washington Heights	27	19	447,000	318,100	17.0	6.2
45. West Pullman	15	4	207,000	52,500	13.3	8.8
Districts represented by less than 12 properties	8	4	127,700	75,800	26.6	17.9
Total	5388	717	199,949,800	18,739,100	32.4	19.7

Vacant land in distinctly outlying districts[1] is assessed at an average rate of 10.2%; and this figure may be in part only the result of the difference between conservative appraisal, on the one hand, and somewhat speculative real estate prices on the other. But vacant land throughout the rest of the city is assessed at 23.1%, while improved property in the same sections is assessed at 32.6%; and this discrepancy can not be explained by any such factor as that conceded in the case of outlying sections. It is evident that throughout this quadrennium we have had in Chicago the exact opposite of the single tax; that is, a "classification" of property without the formality of a constitutional amendment, in which the lowest rates were accorded vacant land and the rates increased in proportion as the owner improved and utilized his property.

Summary

Investigation discloses that the net result of adjustments made throughout the four-year period following 1923, both by the Board of Assessors and the Board of Review, was a reduction of assessment, the average rate of assessment dropping from 35.4% in 1923 to 31.3% in 1926. The wide range of individual assessments was not reduced; and the average deviation from uniformity for the whole assessment was reduced only from 40 to 38%. The glaring inequalities among townships, districts, and classes of property were not even mitigated.

But these conditions had apparently prevailed so long in Chicago that they had come to be taken more or less for granted. And while irritation over taxes in general was widespread, most groups of taxpayers

[1] Norwood Park, Dunning, Montclare, Chicago Lawn, Auburn Park, Washington Heights, Pullman, West Pullman.

and business organizations contented themselves with looking forward to 1927, in the hope of securing some improvement in the quadrennial reassessment of that year.

CHAPTER VI

THE QUADRENNIAL ASSESSMENT OF 1927

THE course of assessments throughout the quadrennium 1923–1926 has been traced in preceding chapters chiefly for the purpose of providing the background for the situation that developed in Chicago in 1927. The assessment of that year precipitated such widespread indignation and criticism that it was finally annulled by the State Tax Commission. It will be worthwhile, therefore, to analyze this assessment in some detail; and inasmuch as it was largely on the basis of the facts herein contained that the Tax Commission finally ordered the reassessment, the reader will be interested to know just what these facts were.

General Level of Assessment

The general level of the assessment of 1927, as made by the Board of Assessors, was 39.8%. Revision by the Board of Review brought this down to 35.9%. These figures in themselves are not surprising; for in view of the general protest aroused by the assessment one would have been prepared to find a substantial increase in assessments. The actual increase over the last quadrennial assessment is scarcely detectable (an increase of 1.4%); and even the increase from the reduced assessment of 1926 is only 14.7%. Taxpayers were prepared for some increase in the assessment of 1927 on account of the general increase in property values since 1923, if for no other reason; and if the actual increase had been distributed with

any semblance of equality, the majority of property holders would merely have breathed a sigh of relief that it was less than most of them had anticipated. In concrete form, the average result over the entire five-year period was merely that a property with a sales value of $100,000 was assessed in 1923 at $35,400; in 1926 at $31,300; and in 1927 at $35,900; not something to become greatly excited about. But the extreme inequalities of the assessment, in conjunction with circumstances to be described later, precipitated a storm of protest.

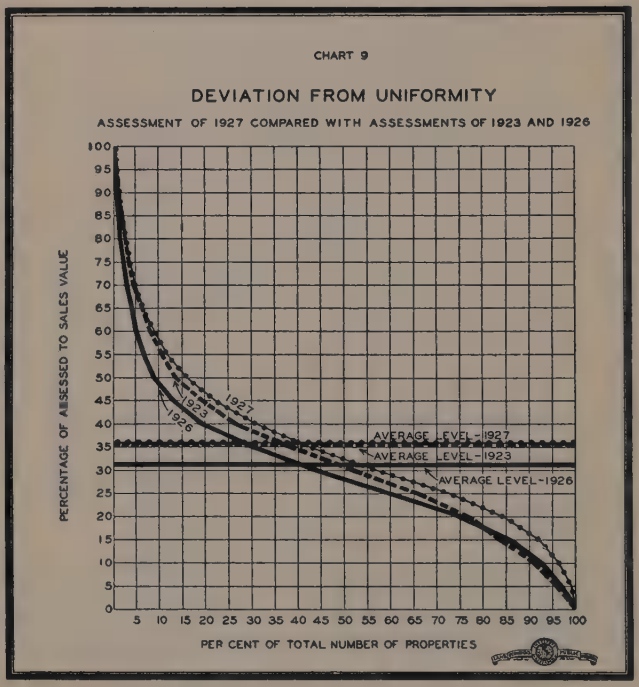
Range of Assessments

The general range of assessments is indicated in Table 11 below. The absence of any improvement over the previous condition of assessments is obvious. A

TABLE 11
RANGE OF ASSESSMENTS, 1927

Percentage of Sales Value	Number of Properties	Percent of Total Number	Value of Properties Represented	Percent of Total Value
1 to 5	56	.9	$ 1,947,600	.9
6 to 10	162	2.7	4,870,100	2.3
11 to 15	263	4.4	12,073,100	5.6
16 to 20	454	7.5	20,360,400	9.5
21 to 25	692	11.5	25,615,500	12.0
26 to 30	938	15.6	32,585,800	15.2
31 to 35	863	14.3	29,975,300	14.0
36 to 40	723	12.0	23,451,600	10.9
41 to 45	524	8.7	17,077,600	8.0
46 to 50	368	6.1	12,009,700	5.6
51 to 55	259	4.3	8,578,300	4.0
56 to 60	161	2.7	4,741,200	2.2
61 to 65	162	2.7	5,093,500	2.4
66 to 70	92	1.7	3,432,600	1.6
71 to 75	74	1.2	3,453,000	1.6
76 to 80	60	1.0	1,676,700	.8
81 to 85	50	.8	2,198,700	1.0
86 to 90	38	.6	973,600	.5
91 to 95	28	.5	1,309,500	.6
96 to 100	17	.3	1,013,500	.5
101 and over	33	.5	1,691,700	.8
Total	6017	100.0	$214,129,000	100.0

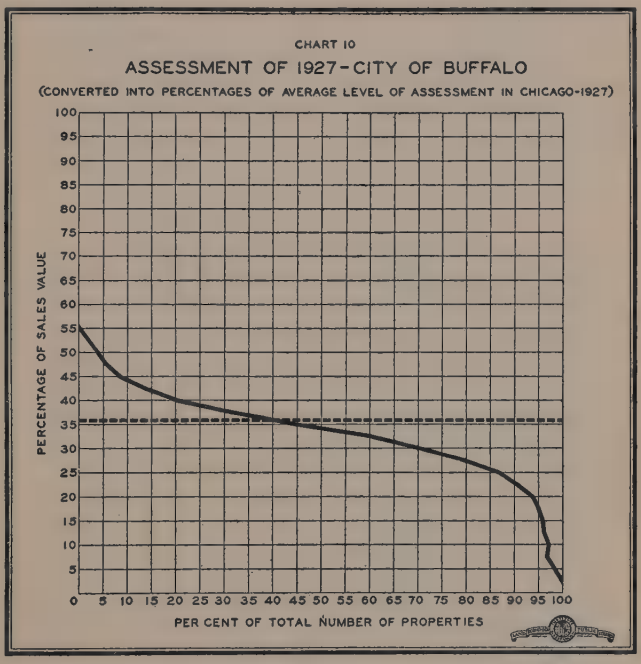
total of 935 properties out of 6000, that is, 15½% of all properties, are assessed between 1 and 20% of value. On the other hand, 554 properties, or nearly 10% of the whole number, are assessed from 60 to over 100%!



Deviation from Uniformity

In Chart 9, the curves of deviation for 1923 and 1926 are again brought forward for the sake of convenient comparison with the curve for 1927. These curves are so similar that were it not for the slight difference in levels, all three of them would practically coincide. The average deviation from uniformity in the assessment was 36.5%, compared with 40.4% for 1923 and 38% for 1926.

For the sake of comparison with another city, the assessment of the same year (1927) in the city of Buffalo is shown in Chart 10. The curve in this chart is based on 1808 sales, secured through the courtesy of Mr. Arthur Tyng, consulting engineer, of Buffalo. It will be noted that the curve for Buffalo has been converted into percentages of the *level* of



assessment in Chicago, in order to make it possible to compare the *slope* of the curve with that of the Chicago curve. The actual level of assessment in Buffalo, on the basis of these sales, was in the neighborhood of 70%. The sharp elbow at the lower end of the curve is due to the inclusion of a disproportionate number of subdivision or outlying properties,

which have unavoidably distorted the sample. But in order to avoid injecting any element of our own judgment into the result, the data have been plotted just as received from Mr. Tyng, without selection or alteration.

It should be said, likewise, that Buffalo does not purport to have a model system of assessment. It is presumably roughly typical of the general run of assessment in American cities. Yet, on the basis of the sales data available, its assessment shows a deviation of 20% from uniformity, compared with average deviations of 37 to 40% in Chicago.

Territorial Inequalities

Townships

The average levels of assessment in the various "towns" of the city are indicated in Table 12, and the results are illustrated in Chart 11.

Table 12

Assessment of 1927
By Townships

Townships	Number of Properties	Value of Properties	Average Ratio of Assessed to Sales Value	
			Board of Assessors	Board of Review
South Town	200	$ 17,878,000	58.5%	53.5%
South Town (excluding the Loop)	180	9,964,500	42.0	37.2
North Town	198	11,086,500	53.6	41.6
Rogers Park	170	9,706,300	40.6	36.9
Lake View	743	36,321,100	39.8	35.9
Hyde Park	1166	46,535,900	37.6	34.7
Jefferson	904	22,942,300	36.4	34.2
West Town	1620	44,986,900	38.2	33.8
Lake	876	22,527,200	31.4	29.4
Calumet	140	2,144,800	13.3	13.1
Total	6017	$214,129,000	39.8	35.9

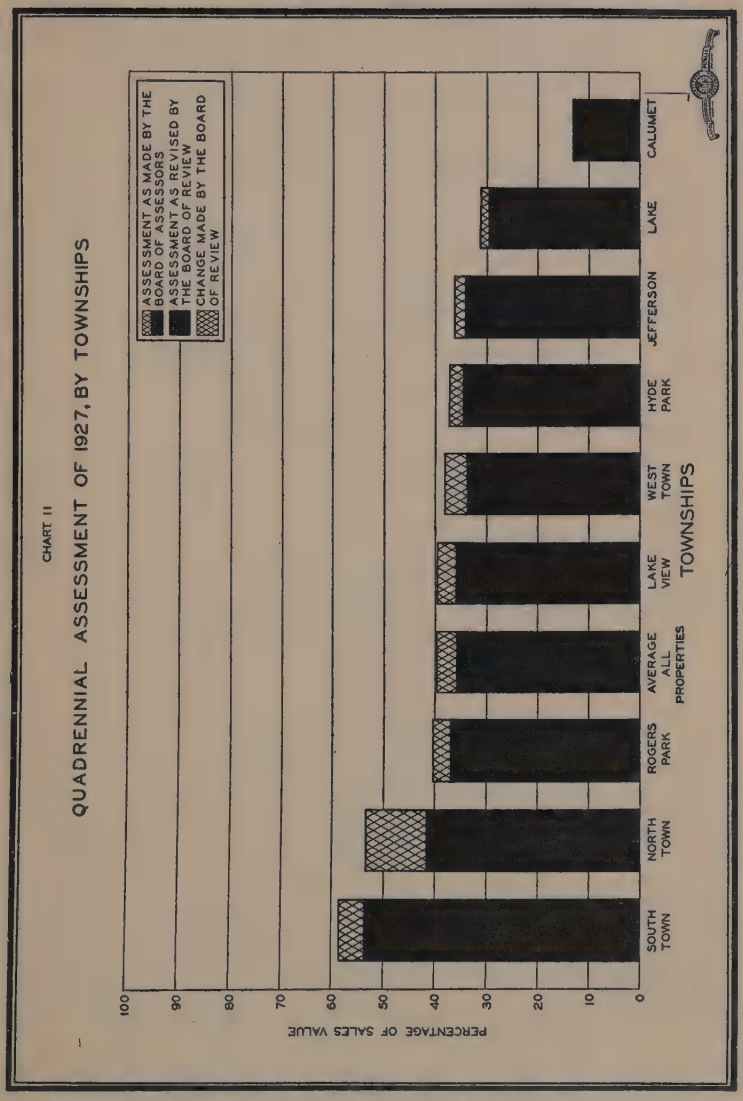


CHART II
QUADRENNIAL ASSESSMENT OF 1927, BY TOWNSHIPS
ASSESSMENT AS MADE BY THE BOARD OF ASSESSORS
ASSESSMENT AS REVISED BY THE BOARD OF REVIEW
CHANGE MADE BY THE BOARD OF REVIEW
PERCENTAGE OF SALES VALUE
100
90
80
70
60
50
40
30
20
10
0
SOUTH TOWN
NORTH TOWN
ROGERS PARK
AVERAGE ALL PROPERTIES
LAKE VIEW
WEST TOWN
HYDE PARK
JEFFERSON
LAKE
CALUMET
TOWNSHIPS

Assessments within each of these towns have been analyzed; and while space will not permit reproduction of these tables and charts, it may be said in brief that each town, taken separately, shows practically the same range of assessments and the same curve

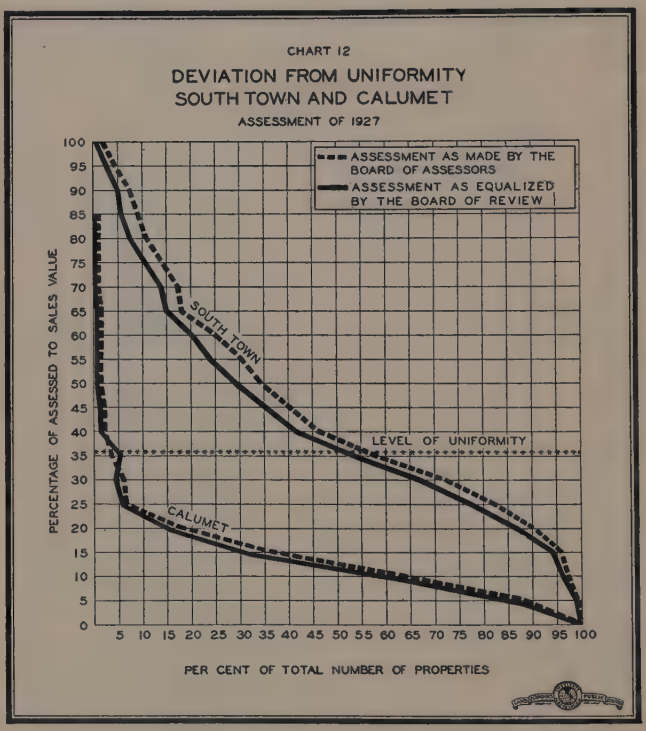


CHART 12
DEVIATION FROM UNIFORMITY
SOUTH TOWN AND CALUMET
ASSESSMENT OF 1927
ASSESSMENT AS MADE BY THE BOARD OF ASSESSORS
ASSESSMENT AS EQUALIZED BY THE BOARD OF REVIEW
SOUTH TOWN
LEVEL OF UNIFORMITY
CALUMET
PERCENTAGE OF ASSESSED TO SALES VALUE
100 95 90 85 80 75 70 65 60 55 50 45 40 35 30 25 20 15 10 5 0
5 10 15 20 25 30 35 40 45 50 55 60 65 70 75 80 85 90 95 100
PER CENT OF TOTAL NUMBER OF PROPERTIES

of deviation from uniformity as are found in the assessment for the entire city. But two of these towns, the highest and the lowest in the scale of assessment, show such picturesque contrasts, that the distribution of assessments within these towns is shown in Chart 12 above.

Districts

The average levels of assessment in neighborhood districts for 1927 are indicated in Table 13.

These results are illustrated in Chart 13, in which the irregular contour resembles closely the corresponding charts for 1923 and 1926 (pp. 36 and 49).

The same results are represented on the assessment map of Chicago shown below. Here it will be noted, as in previous assessments, that the areas of heaviest assessment are concentrated in the downtown sections, the areas of lighter assessment ranging throughout the outlying portions of the city. In other words, if the various levels of assessment in Chicago were represented by a relief map, we should have the downtown business section situated upon a distinct peak, surrounded by a broad and irregular plateau of considerable altitude; this plateau falling away to irregular foothills in the northern and western portions of the city, and dropping abruptly to a plain or marsh in the vicinity of Lake Calumet. A similar map for 1926 is placed here for the sake of convenient comparison with the assessment of 1927.

The Loop

Few things in the entire study have occasioned more surprise than the position of the Loop, illustrated by the extreme projection of the Loop above the other districts of the city in the charts on pages 36, 49 and 66, for 1923, 1926, and 1927; so much so, that the writer had some misgivings about the representativeness of this portion of our sample and had an inspection made of the location and general character of each of the properties in question.

This inspection disclosed two things: first, that these properties were in general older buildings, most of them heavily depreciated and many of them in

Table 13

Assessment of 1927
By Districts

Districts*	Number of Properties	Value of Properties Represented	Average Ratio of Assessed to Sales Value	
			Board of Assessors	Board of Review
1. Loop	20	$ 7,913,500	79.3%	74.1%
2. 22nd St. Post Office	27	1,021,000	56.4	54.3
3. Chicago Ave. Post Office	65	5,627,000	53.3	48.0
4. Canal St. Post Office	34	1,596,400	47.4	46.0
5. Lincoln Park	81	2,728,800	51.1	45.4
6. Post Office "C"	48	1,632,100	46.8	44.2
7. Montclare	20	479,300	42.7	41.7
8. Edgewater	204	9,733,500	42.7	40.1
9. Douglas Park	48	1,207,400	40.8	38.0
10. Kenwood	121	5,877,400	39.7	37.3
11. Hyde Park	164	9,843,500	41.9	37.1
12. Rogers Park	179	9,989,800	40.6	36.9
13. North Halsted	124	7,442,600	51.6	36.7
14. Ravenswood	468	16,899,500	39.2	35.6
15. Garfield Park	255	7,375,800	38.0	35.4
16. Logan Square	217	5,550,900	38.3	35.4
17. Armour	72	2,450,900	36.2	35.0
18. Irving Park	286	6,701,300	36.7	34.7
19. Hawthorne	276	6,702,200	37.2	34.5
20. Stock Yards	39	1,639,300	34.7	34.4
21. 51st St. Post Office	123	3,931,500	37.4	34.1
22. Wicker Park	132	3,161,200	35.5	33.8
23. Grand Crossing	443	15,325,300	35.8	33.7
24. Humbolt Park	248	6,458,100	36.4	33.7

TABLE 13 (con't.)

Districts*	Number of Properties	Value of Properties Represented	Average Ratio of Assessed to Sales Value	
			Board of Assessors	Board of Review
25. Windsor Park	90	$ 2,918,800	35.6%	33.5%
26. Jackson Park	171	7,833,700	36.6	33.3
27. Englewood	182	5,891,100	35.9	33.2
28. Cragin	182	3,443,400	35.0	33.2
29. Pilsen	104	2,235,600	37.4	32.2
30. Jefferson	74	1,742,300	33.4	32.1
31. Austin	229	6,145,800	34.7	31.7
32. Ogden Park	87	2,057,400	31.9	30.8
33. Lake View	273	14,878,000	33.8	30.8
34. McKinley Park	63	1,124,700	31.9	29.5
35. Adams St. Post Office	13	4,023,000	41.3	28.5
36. Pullman	45	1,205,200	29.6	28.0
37. Chicago Lawn	200	4,673,500	29.2	27.7
38. Post Office "D"	74	4,591,000	47.3	27.3
39. Elsdon	49	768,800	28.2	25.9
40. Dauphin Park	57	1,070,900	26.7	25.3
41. Auburn Park	305	6,470,200	27.3	25.2
42. South Chicago	45	870,700	22.0	22.4
43. West Pullman	18	238,500	16.3	16.3
44. Washington Heights	44	714,600	14.4	13.9
Total	5999	$213,825,500	39.8	35.9

* Districts represented by less than 12 transfers omitted.

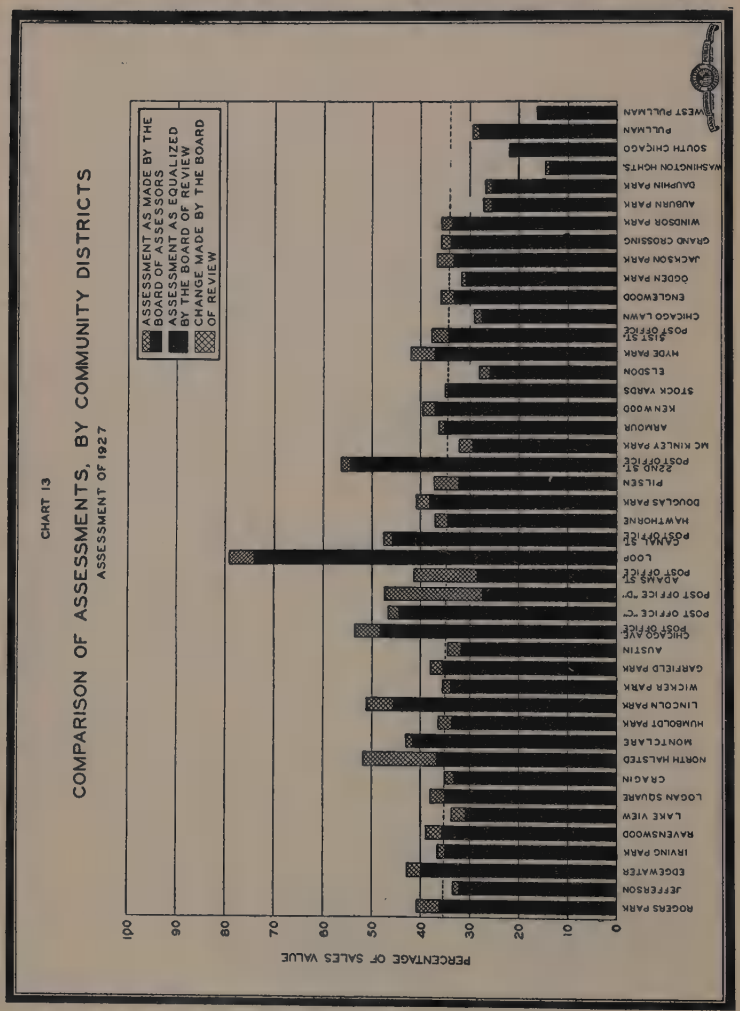
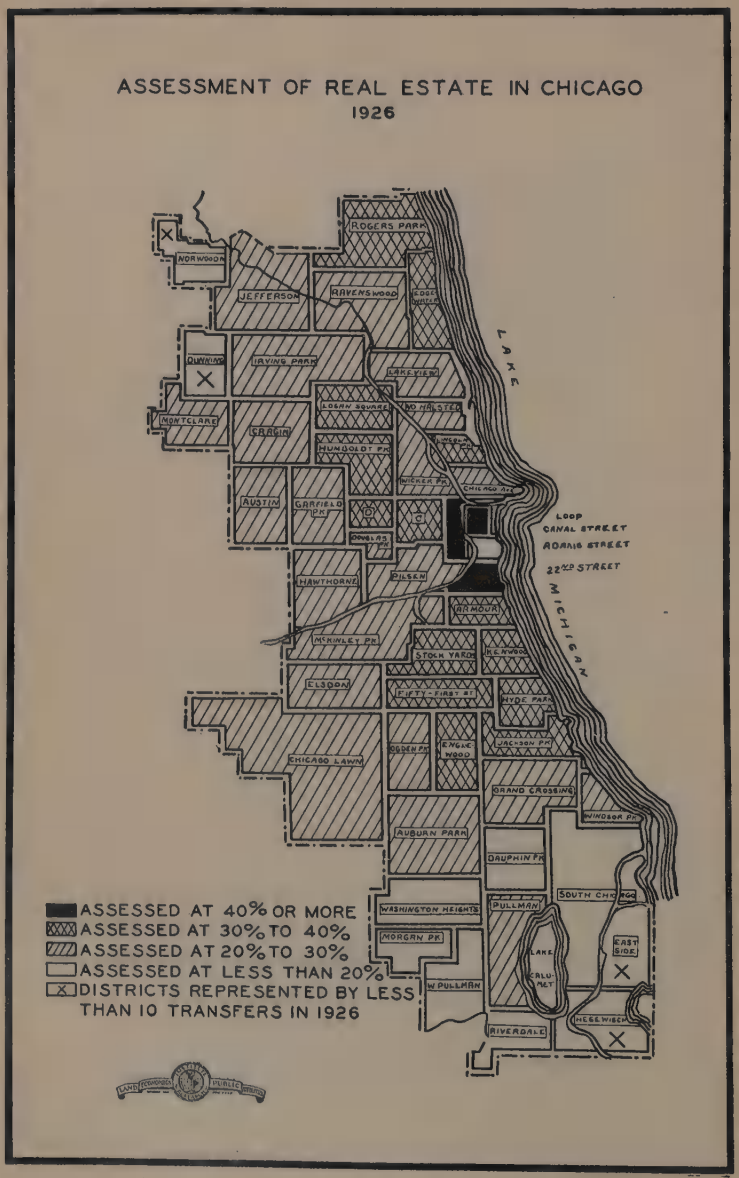


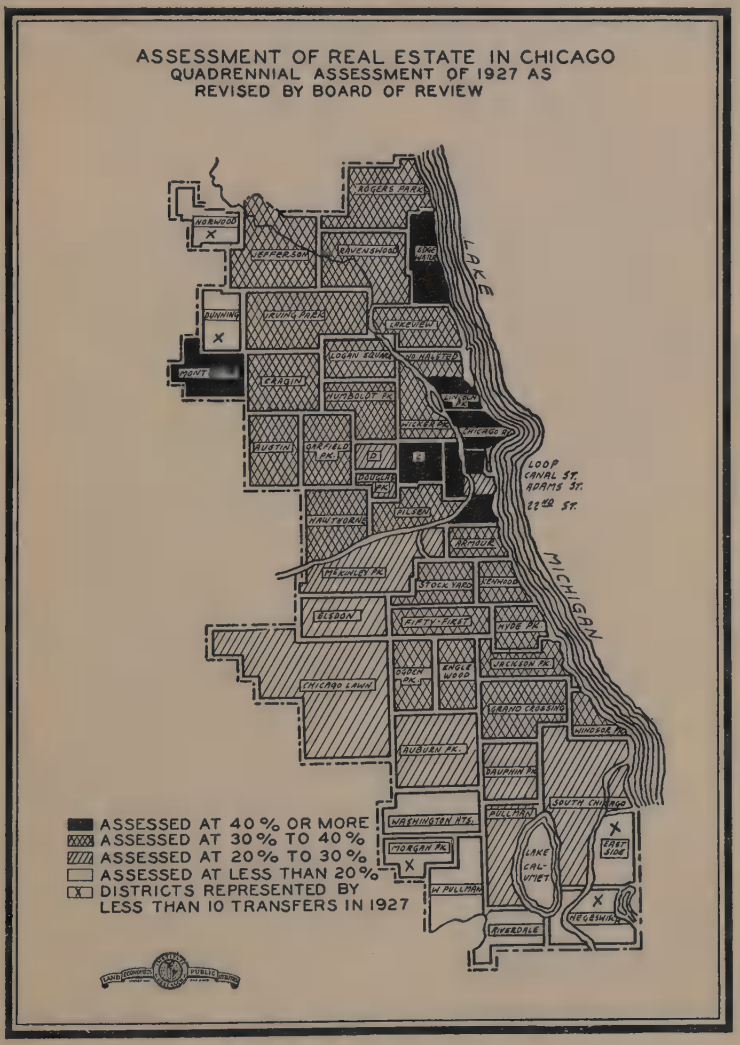
CHART 13
COMPARISON OF ASSESSMENTS, BY COMMUNITY DISTRICTS
ASSESSMENT OF 1927
ASSESSMENT AS MADE BY THE BOARD OF ASSESSORS
ASSESSMENT AS EQUALIZED BY THE BOARD OF REVIEW
CHANGE MADE BY THE BOARD OF REVIEW
PERCENTAGE OF SALES VALUE
0
10
20
30
40
50
60
70
80
90
100
ROGERS PARK
JEFFERSON
EDGEWATER
IRVING PARK
RAVENSWOOD
LAKE VIEW
LOGAN SQUARE
CRAGIN
NORTH HALSTED
MONTCLARE
HUMBOLDT PARK
LINCOLN PARK
WICKER PARK
GARFIELD PARK
AUSTIN
CHICAGO AVE POST OFFICE
POST OFFICE "C"
POST OFFICE "D"
ADAMS ST POST OFFICE
LOOP
CANAL ST POST OFFICE
HAWTHORNE
DOUGLAS PARK
PILSEN
22ND ST POST OFFICE
MC KINLEY PARK
ARMOUR
KENWOOD
STOCK YARDS
ELSDON
HYDE PARK
91ST ST POST OFFICE
CHICAGO LAWN
ENGLEWOOD
OGDEN PARK
JACKSON PARK
GRAND CROSSING
WINDSOR PARK
AUBURN PARK
DAUPHIN PARK
WASHINGTON HGHTS.
SOUTH CHICAGO
PULLMAN
WEST PULLMAN

advanced stages of obsolescence; and second, that this type of building is *eminently representative* of Chicago's Loop. Probably most people, in thinking of the Loop, think of the dozen or so modern skyscrapers and towers, which are the conspicuous but not the representative features of the downtown district. One who sees the Loop from the top of a sight-seeing bus will have a vivid impression of skyscrapers and towers. But one may walk through the heart of the Loop from the river to the lake, on Madison Street, even now, after three years of new construction since the assessment of 1927, and see seven or eight modern buildings, with an average height of approximately 38 stories, sprinkled among 60 old buildings, with a height of from 5 to 10 stories, and with a depreciation and obsolescence varying from 25% to outright demolition.

It is the latter type of building that is representative of the downtown district and that is reflected with apparently a high degree of accuracy in our sample above. But this sample does not indicate what the conditions of assessment may be in the case of the new skyscraper buildings in the Loop.

A number of explanations of the high rate of assessment may be offered. In the case of the older buildings, the chief factor is apparently the difficulty the assessors have in conceding the amount of actual obsolescence in these properties. In the case of a large building situated on a valuable site, in fair physical condition and still housing perhaps a group of prosperous businesses, most people do find difficulty in writing its value down to zero or thereabouts, merely because a street has been widened or a new thoroughfare opened, which greatly enhances the value of the site and necessitates the construction of a new and modern building upon it. As a matter of fact there


ASSESSMENT OF REAL ESTATE IN CHICAGO
1926
ROGERS PARK
NORWOOD
JEFFERSON
RAVENSWOOD
EDGEWATER
DUNNING
IRVING PARK
LAKE VIEW
LAKE
LOGAN SQUARE
NO. HALSTED
MONTCLARE
CRAGIN
HUMBOLDT PK.
NORTH PK.
CHICAGO AV.
AUSTIN
GARFIELD PK.
DOUGLAS
LOOP
CANAL STREET
ROBEY STREET
22ND STREET
MICHIGAN
HAWTHORNE
PILSEN
ARMOUR
McKINLEY PK.
STOCK YARDS
R.C. WOOD
ELSDON
KENWOOD
HYDE PARK
ENGLEWOOD
WOODLAWN
CHICAGO LAWN
GOLDEN PK.
GRAND CROSSING
WINDSOR PK.
AUBURN PARK
DAUPHIN PK.
WASHINGTON HEIGHTS
PULLMAN
SOUTH CHICAGO
MORGAN PK.
LAKE CALUMET
EAST SIDE
W. PULLMAN
RIVERDALE
HEGEWISCH
ASSESSED AT 40% OR MORE
ASSESSED AT 30% TO 40%
ASSESSED AT 20% TO 30%
ASSESSED AT LESS THAN 20%
DISTRICTS REPRESENTED BY LESS THAN 10 TRANSFERS IN 1926


ASSESSMENT OF REAL ESTATE IN CHICAGO
QUADRENNIAL ASSESSMENT OF 1927 AS
REVISED BY BOARD OF REVIEW
ROGERS PARK
NORWOOD
JEFFERSON
RAVENSWOOD
LAKE
DUNNING
IRVING PARK
LAKEVIEW
LOGAN SQUARE
NO HALSTED
MONT
CRAGIN
HUMBOLDT PK
WICKER PK
CHICAGO AV
AUSTIN
GARFIELD PK.
DOUGLAS PK
LOOP
CANAL ST.
ADAMS ST.
22ND ST.
PILSEN
HAWTHORNE
ARMOUR
McKINLEY PK
STOCK YARD
KENWOOD
MICHIGAN
ELSDON
FIFTY-FIRST
HYDE PK
JACKSON PK
OGDEN PK
ENGLE WOOD
CHICAGO LAWN
GRAND CROSSING
WINDSOR PK
AUBURN PK.
DAUPHIN PK
SOUTH CHICAGO
WASHINGTON HTS.
PULLMAN
MORGAN PK
LAKE CAL-UMET
EAST SIDE
W PULLMAN
NEGESWIK
RIVERDALE
ASSESSED AT 40% OR MORE
ASSESSED AT 30% TO 40%
ASSESSED AT 20% TO 30%
ASSESSED AT LESS THAN 20%
DISTRICTS REPRESENTED BY
LESS THAN 10 TRANSFERS IN 1927
LAND COMMISSION
PUBLIC

are many such properties where the building is worth *less than nothing* by the cost of demolishing and hauling it away. The effect of this factor is to materially increase the assessed valuation of improvements in relation to actual values; and this is one of the factors reflected in our average rate of assessment for the Loop.

A second element is the fact that land values throughout the city have in general been assessed without reference to any principle or system; whereas, in the case of the Loop, there has been some systematic attempt to apply the so-called Martin Rule. The effect has necessarily been higher valuations in the Loop than elsewhere.

A third less tangible factor is the feeling that the wealthy owners of large properties in the downtown district can properly be taxed at a higher rate than the smaller property owners. Both assessors and members of the Board of Review have expressed the sentiment that "they can afford to pay more" than small property owners. This is, in effect, applying progressive rates to property taxation; and there is some good economic opinion[1] for such a policy—if applied uniformly and openly. There is no justification for applying progressive rates to groups as a whole, while continuing arbitrary discrimination among individuals within each "bracket," so to speak.

These explanations will throw some light on the position of the Loop in our chart. But when we have taken them all into account—the Martin Rule, obsolescence, and any sincere effort to introduce an element of graduation—there still remains a degree of inequality which cannot be accounted for on the basis of any legitimate factors known to the writer.

[1] *Cf.* John R. Commons, in *Political Science Quarterly*, vol. 37, pp. 41–68 (March, 1922).

Inequalities among Classes of Property

The average rate of assessment of different classes of property in 1927 is shown in Table 14 and illustrated in Chart 14 below.

TABLE 14
ASSESSMENT OF 1927
BY CLASSES OF PROPERTY

Classes of Property Arranged in Order of Ratio of Assessed to Sales Value	Number of Properties	Value of Property Represented	Average Ratio of Assessed to Sales Value	
			Board of Assessors	Board of Review
1. Office and Bank Buildings	22	$ 3,956,700	65.5%	56.7%
2. Hotels, Theaters, and Amusements	31	8,226,300	48.3	33.1
3. Industrial	129	13,870,800	46.7	43.8
4. Commercial—Retail and Wholesale	451	20,949,600	45.5	39.0
5. Miscellaneous	254	9,664,700	40.3	35.3
6. Apartment Buildings	1581	80,126,400	38.7	34.9
7. Combined Business and Residence	564	21,647,600	36.8	34.7
8. Vacant Land	842	20,915,400	36.2	35.2
9. Duplexes and Two-flats	848	13,629,900	35.7	33.1
10. Single-Family Residences	1295	21,141,600	35.0	32.6
All Improved Properties	5176	193,240,600	40.2	36.0
All Properties	6017	$214,129,000	39.8	35.9

Three points of particular interest emerge from this exhibit. The first is the fact that vacant land is assessed at nearly twice the rate at which it was assessed in the preceding quadrennium (pp. 39 and 51). This, it should be borne in mind, has no connection with any fluctuations of value that may have taken place in the interim, since all figures are percentages of the same sales values that were used in the preceding quadrennium. The higher assessment was brought

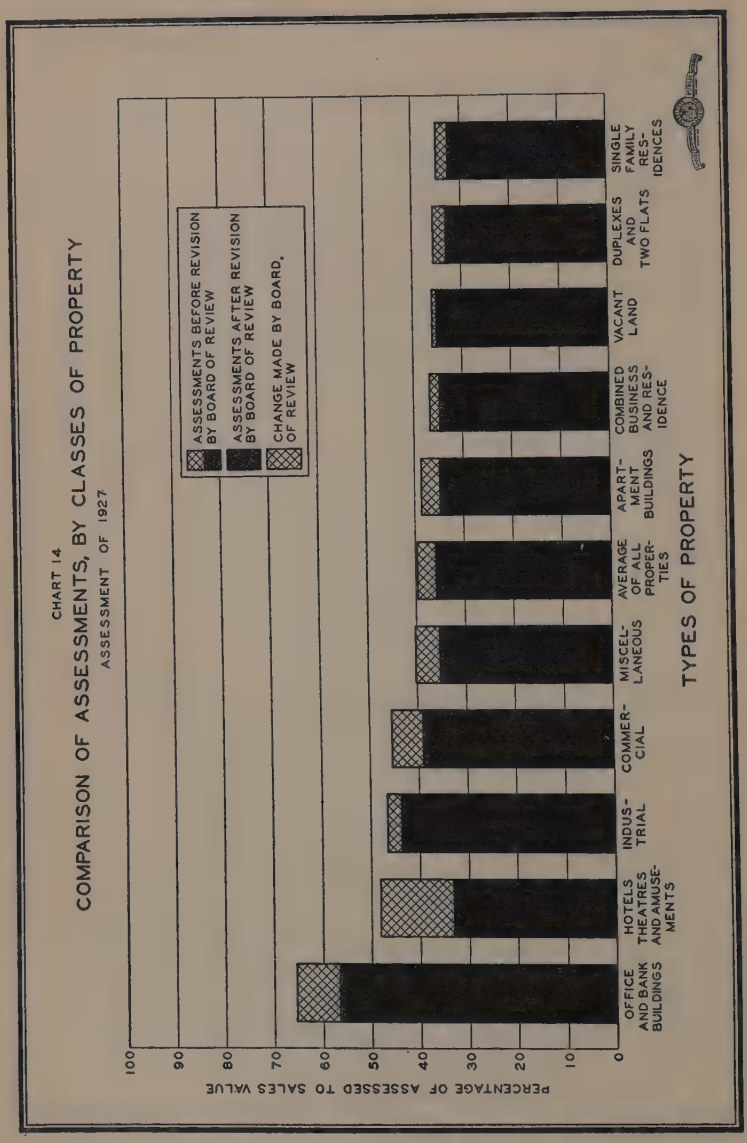


CHART 14
COMPARISON OF ASSESSMENTS, BY CLASSES OF PROPERTY
ASSESSMENT OF 1927
ASSESSMENTS BEFORE REVISION BY BOARD OF REVIEW
ASSESSMENTS AFTER REVISION BY BOARD OF REVIEW
CHANGE MADE BY BOARD OF REVIEW
PERCENTAGE OF ASSESSED TO SALES VALUE
0
10
20
30
40
50
60
70
80
90
100
OFFICE AND BANK BUILDINGS
HOTELS THEATRES AND AMUSEMENTS
INDUSTRIAL
COMMERCIAL
MISCELLANEOUS
AVERAGE OF ALL PROPERTIES
APARTMENT BUILDINGS
COMBINED BUSINESS AND RESIDENCE
VACANT LAND
DUPLEXES AND TWO FLATS
SINGLE FAMILY RESIDENCES
TYPES OF PROPERTY

about, in part, by the disclosure, in the course of this study, of the previous low rate of assessment and the criticism of that phase of assessment in the public discussion that followed. The increase in 1927 brought the assessment of vacant land fully into line with the assessment of improved property.

The second feature of significance is the fact that single-family residences are assessed at a lower rate than any other class of property.

The third is the high initial assessment of the hotels and theaters, and the substantial reduction accorded these properties by the Board of Review. Many of the hotels, particularly the apartment hotels, have recently been in a precarious position on account of the large amount of new construction in this field and the narrow margins upon which much of this construction has been financed. The owners of these properties made vigorous representations before the Board of Review and, in the main, secured substantial reductions in their assessment. Organizations representing this group of properties are now advocating valuations based more largely on consideration of income. On any income basis they are still assessed too high; but the propriety of applying an income basis of assessment to certain groups of properties, while assessing other non-income property, such as homes and vacant land, on a straight property basis, is open to serious question. It will be considered again in connection with the reassessment.

One qualification should be made upon the exhibit in Table 14. This is the fact that the group of "Industrial" properties is necessarily made up of the smaller type of industrial establishments, since large industrial properties are rarely objects of transfer, except through purchase and sale of the securities of the companies that own them. The industrial proper-

ties in our sample had an average sales value of $107,520; so that the result here indicates nothing with regard to the rate of assessment of large industrial properties.

Inequalities within Classes of Property

An analysis of the assessments of individual properties within each of these classes discloses the same general range of inequalities *within each class* as has been shown to exist throughout the general assessment. One class only will be selected here for purposes of illustration, namely, the assessment of single-family residences.

If the relatively low rate of 32.6% were applied to all homeowners, something might perhaps be said in its favor. But Table 15 below indicates that while 750 out of our 1300 homes were accorded this or a lower rate, 545 other home-owners, or 42% of the entire number represented, were assessed at rates ranging from 32.6% to over 100%. The result is illustrated in Chart 15.

Finally, if these 545 homeowners who paid taxes on the higher assessments represented the wealthier classes of homeowners, the assessment might still not be indefensible. Unfortunately there were among the 1300 homeowners only 28 who owned homes valued at $50,000 or over, and only 124 owners of homes valued at $25,000 or more, so that all the high assessments could not possibly have been levied upon these classes. Where these 545 actually were located on the scale of assessment is indicated beyond question in Table 16 and Chart 16 below.

Properties Classified According to Value

With a view to tracing still more accurately the lines of inequality, all properties have been classified

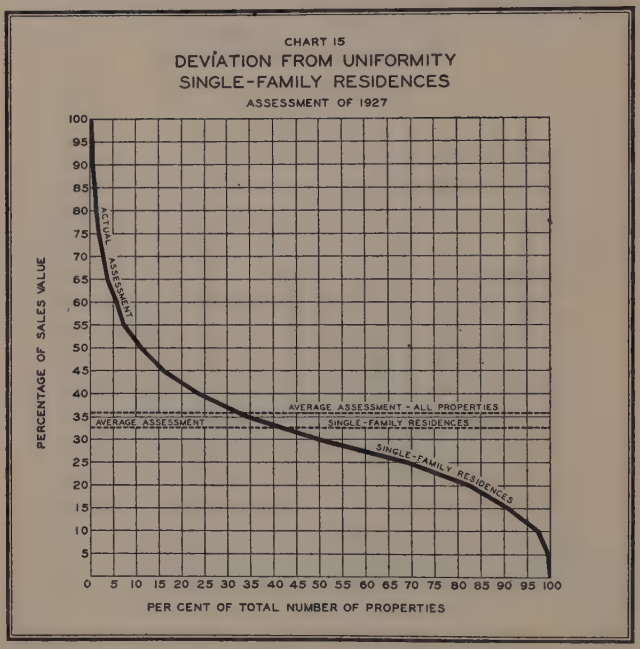
TABLE 15
ASSESSMENT OF 1927
SINGLE-FAMILY RESIDENCES

Percentage of Sales Value	Number of Properties	Percent of Total Number of Residences	Value of Properties Represented
1 to 5	5	.4	$ 124,700
6 to 10	28	2.2	832,300
11 to 15	85	6.5	1,749,500
16 to 20	106	8.2	1,665,600
21 to 25	176	13.6	2,780,500
26 to 30	248	19.1	3,563,500
31 to 35	204	15.8	3,036,600
36 to 40	139	10.7	2,105,700
41 to 45	97	7.5	1,754,700
46 to 50	63	4.9	945,500
51 to 55	49	3.8	937,300
56 to 60	20	1.5	340,000
61 to 65	26	2.0	523,900
66 to 70	12	.9	184,500
71 to 75	12	.9	172,300
76 to 80	8	.6	168,000
81 to 85	4	.3	63,000
86 to 90	6	.5	98,500
91 to 95	2	.2	23,000
96 to 100	2	.2	35,000
101 and over	3	.2	37,500
Total	1295	100.00	$21,141,600

according to value, and the average level within each class determined. The results are indicated in Table 17.

Two somewhat astonishing facts emerge from this Table on page 79. The first is that on the basis of the final Board of Review figures the rate of assessment varies exactly inversely with the size of properties, down to the largest class, properties worth $250,000 and over, which are assessed only slightly below the general average. The smallest properties are assessed at 39.1%, and each successively more valuable group of properties is assessed at lower rates, with the ex-

ception of properties valued at $250,000 and over, which are assessed at a slightly higher rate than the two preceding classes, though still below the general average for the entire assessment. The three groups of smaller properties, including all properties valued at less than $50,000, are assessed at an average rate



of 37.4%; the three groups of larger properties, those valued at $50,000 and over, are assessed at an average rate of 34.6%. The difference between the higher and lower rates is not large in terms of percentages; but with an average tax rate in Chicago of approximately 5%, this difference means an actual rate of $18.70 per $1000 of full value on the smallest properties and $17.30 on the largest. The largest properties in our sample have an average sales value of $614,830.

The difference in assessment rates means, therefore, an actual saving of something like $860.00 in taxes upon each of these properties, at the expense chiefly of the smallest property owners in the city.

A number of possible explanations of this situation will readily occur to the reader. Among these is the fact that the larger property holders are ordinarily better informed with regard to property values and taxes, can afford to employ tax specialists and tax

TABLE 16

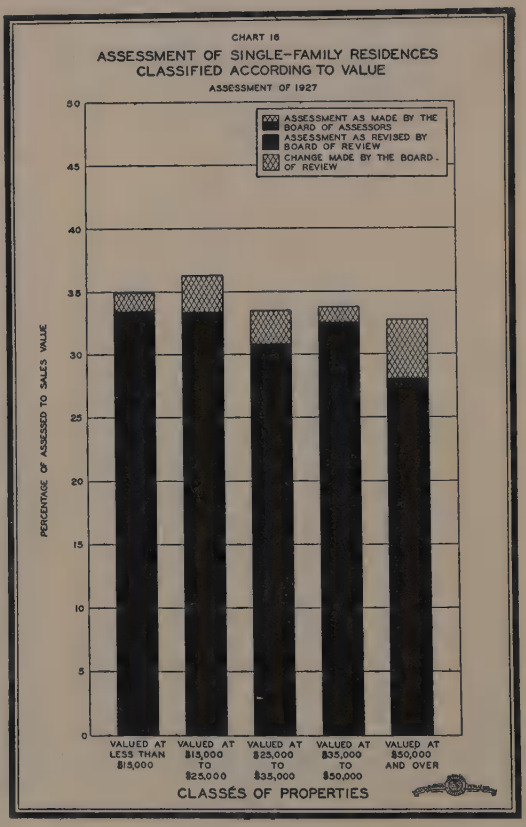
ASSESSMENT OF 1927
SINGLE-FAMILY RESIDENCES, CLASSIFIED ACCORDING TO VALUE

Value Classes	Number of Properties	Value of Property Represented	Average Value per Home	Average Ratio of Assessed to Sales Value		Amount of Reduction by Board of Review
				Board of Assessors	Board of Review	
Less than $15,000	754	$ 8,621,000	$11,434	34.9%	33.5%	1.4%
$15,000 to 24,999	417	7,328,800	17,576	36.3	33.4	2.9
$25,000 to 34,999	70	1,998,500	28,550	33.5	30.9	2.6
$35,000 to 49,999	26	1,008,500	38,788	33.8	32.5	1.3
$50,000 and over	28	2,184,800	77,752	32.7	28.0	4.7
Total	1295	$21,141,600		34.9	32.6	2.3

lawyers, and are in position to make more vigorous representations before the Board of Review—all of which is perfectly legitimate from the standpoint of the taxpayers. Whether such legitimate activities account entirely for the differences, we are not in position to say.

The second and more astonishing feature of Table 17 is the fact that these results have apparently been brought about by deliberately distorting the assessment as made by the Board of Assessors. So far as size of properties is concerned, the original assessment

was reasonably uniform, except for the *higher rate applied to the largest properties*, those valued at $250,000 and over. But the three smallest groups of properties were assessed at an average rate of 39.7% the three largest groups at 39.9%. It is apparent,



therefore, that the inequalities of the assessment not only were *increased* by the revision of the Board of Review, but that these inequalities took the most reprehensible form, that of discrimination in favor of the larger property holders and against the smaller.

TABLE 17

ASSESSMENT OF 1927
PROPERTIES CLASSIFIED ACCORDING TO VALUE

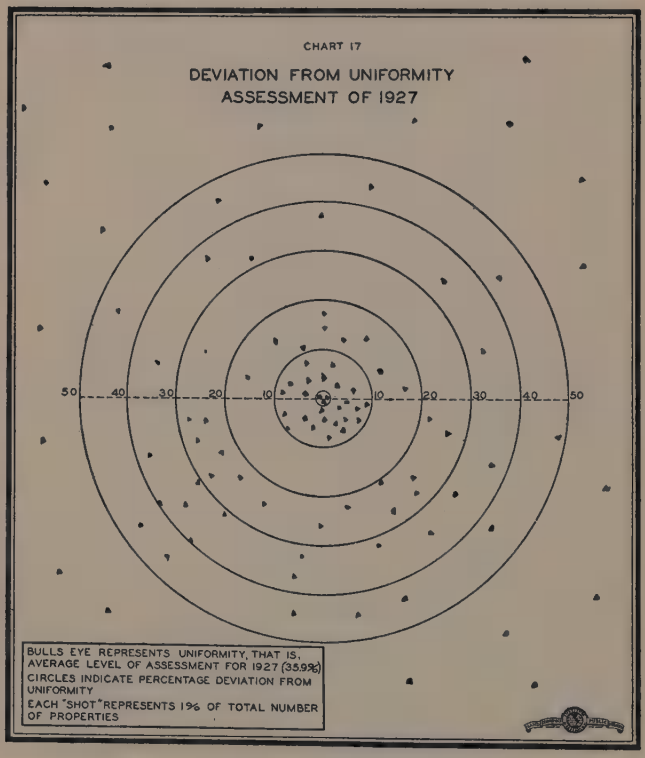
Value Classes	Number of Properties	Value of Property Represented	Average Ratio of Assessed to Sales Value		Amount of Reduction by Board of Review
			Board of Assessors	Board of Review	
Less than $15,000	2011	$ 23,396,200	41.2%	39.2%	2.0%
$15,000 to 24,999	1923	35,011,000	39.3	37.3	2.0
$25,000 to 49,999	1177	40,507,700	39.1	36.4	2.7
$50,000 to 99,999	589	40,070,400	37.4	34.5	2.9
$100,000 to 249,999	257	38,253,900	38.6	34.2	4.4
$250,000 and over	60	36,889,800	44.3	35.3	9.0
Total	6017	$214,129,000	39.8	35.9	3.9

Summary

A summary of the general results of the 1927 assessment is presented below in the form of Charts 17 and 18. In Chart 17, the bull's-eye represents equality. The concentric circles measure percentage deviation from equality, the bullet marks above the dotted horizontal line representing over-assessment and those below the line under-assessment. Each rifle shot represents 1% of the total number of properties. The rifle company in this case is the Board of Review—and the target suggests the extent to which the "uniformity clause" has already been repealed in Chicago, without waiting for the vote upon the Constitutional Amendment.

In Chart 18, the right half indicates how the assessment of 1927 would have looked, if all properties had been assessed equally at the actual average rate for that year, namely, 35.4%. The left half represents the assessment as actually made. The curve differs from those on previous charts in the fact that here it

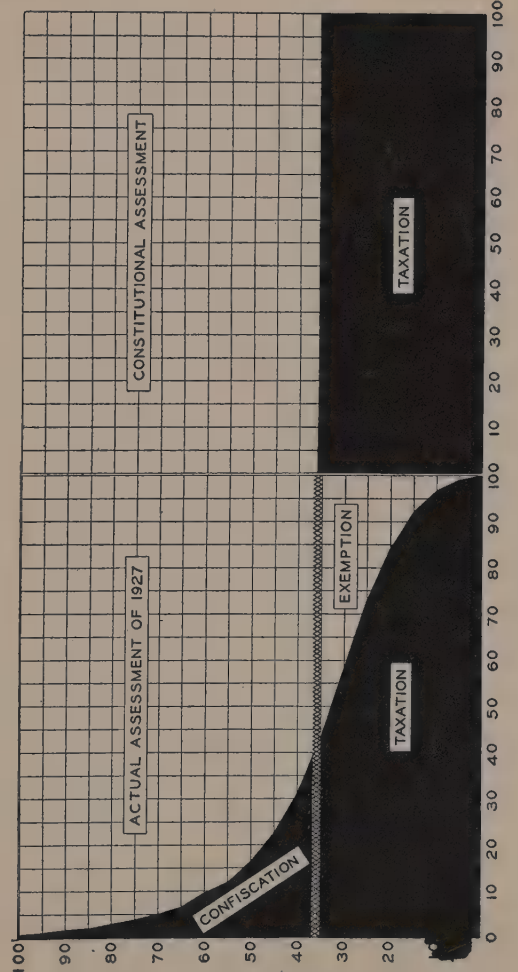
represents *value*, not *individual properties*, indicating for example, that approximately 10% of the *total value* of real estate in Chicago is assessed at 55% or over, that another 10% of total value is assessed at 42 to 55%, and so forth. This makes it possible to represent



aggregate values and assessments in the form of definite areas, drawn to scale on the chart. The quadrangle on the right and the triangle on the left are exactly equal in area and represent an exactly equal amount in dollars and cents.

CHART 18

CONSTITUTIONAL ASPECTS OF ASSESSMENT



A Form of Confiscation

And just as the distribution of assessments in terms of value enables us to visualize certain relationships in the form of definite areas, so the Constitution of Illinois makes it possible to designate these areas with considerable precision. That portion of taxes which is collected from property assessed with some approach to uniformity is *taxation* in a constitutional sense. In a state having a uniformity requirement, that portion of taxes which is collected from a stratum of over-assessed property is not taxation but *confiscation*. In Chicago, this amounts to slightly over $30,000,000 in dollars and cents, collected from citizens every year by a process which is virtually confiscation.

And it is a particularly vicious form of confiscation, since the taxes collected in this way do not go to increase the revenue of the government, but merely to replace payments that should have been made by other property holders. On the chart, the area from which this $30,000,000 of taxes should have come is designated "Exemption," and is exactly equal to the area labeled "Confiscation." The result, therefore, is essentially the same thing as taking $30,000,000 from one group of citizens and distributing it gratuitously among another group.

In the following chapter an effort will be made to trace the responsibility for these results.

CHAPTER VII

PLACING THE RESPONSIBILITY

ONE of the worst features of the present system of assessment in Chicago is the fact that with two independent boards, including five members on one and three on the other, and all of them acting independently of each other, so many avenues are afforded for shifting responsibility from one board to the other and from one individual to another that in the past taxpayers have been entirely unable to place definite responsibility upon any one. One of the most important problems for the taxpayer, therefore, is to measure the character of the work done by *each* of the boards and to determine the degree of responsibility assignable to each. On the basis of the facts disclosed in the present study, it happens that this responsibility can be placed with some definiteness.

In the assessment of 1923 (Chapter IV), since we have there dealt entirely with assessments as they left the hands of the Board of Assessors, before any interference by the Board of Review or other agencies, responsibility for the results rests squarely and solely upon the Board of Assessors. And it must be said they gave Chicago an assessment that was almost grotesque in its inequalities.

Over assessments standing at the end of the quadrennium the Board of Review has entire jurisdiction. It is true, the Board of Assessors handed them a difficult job. But unhappily the Board of Review is not in position to avail itself even of this excuse.

In the first place, if the Board of Review had ever functioned as a board of equalization or had set up any standards of equalization, the Board of Assessors could not turn over such an assessment as that of 1923 without being exposed to immediate public condemnation. In the second place, the Board of Review has virtually unlimited power over the assessment after it leaves the Board of Assessors and has four years in which to carry on its task of equalization. This is the leisurely course of a whole presidential administration. A board which in that period cannot accomplish something in the direction of equalization is futile—if not worse.

Equalization by Board of Review

In order to test accurately the results of equalization by the Board of Review, the initial assessment, as made by the Board of Assessors in 1923, has been compared with the final assessment of 1926, after four years of equalization by the Board of Review. The result is indicated in Chart 19.

To one unfamiliar with the facts it will probably seem impossible that the chart could have been intended to represent any process of equalization. Changes made by the Board of Review should have consisted of *reductions* in the upper ranges and *increases* in the lower ranges of assessment, bringing one end *down* and the other end *up* toward the level of uniformity. As a matter of fact, the changes have all been in one direction,[1] constituting a thin stratum of reduction spread over the entire assessment, without perceptibly changing the form of the assessment.

Measured mathematically, the degree of equality

[1] This does not mean that there were not single cases in which assessments were increased by the Board of Review. There were such scattered cases. The chart is plotted in groups of 5 per cent of the total number of properties and shows the net result of revision by the Board of Review within each such group.

has been slightly improved—the average deviation from uniformity has been reduced from 40% in 1923 to 37.7% in 1926. At that rate of equalization, a uniform assessment would be attained in sixty-nine years, at a cost of some $14,000,000 in salaries and expenses of the Board of Review.

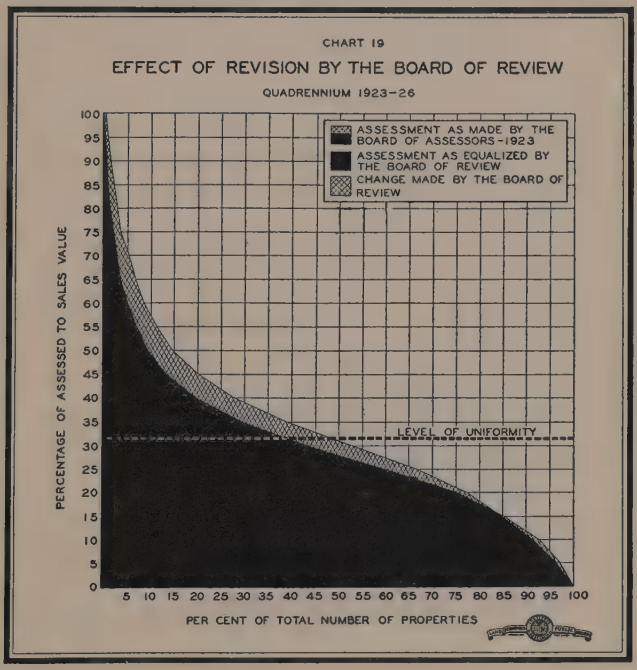


CHART 19
EFFECT OF REVISION BY THE BOARD OF REVIEW
QUADRENNIUM 1923–26
ASSESSMENT AS MADE BY THE BOARD OF ASSESSORS–1923
ASSESSMENT AS EQUALIZED BY THE BOARD OF REVIEW
CHANGE MADE BY THE BOARD OF REVIEW
LEVEL OF UNIFORMITY
PERCENTAGE OF ASSESSED TO SALES VALUE
100 95 90 85 80 75 70 65 60 55 50 45 40 35 30 25 20 15 10 5 0
5 10 15 20 25 30 35 40 45 50 55 60 65 70 75 80 85 90 95 100
PER CENT OF TOTAL NUMBER OF PROPERTIES

But there are more than a million parcels of real estate in Chicago, and it was felt that possibly the character of the assessment might represent to some extent only the results of accident, ignorance, and the necessary inexactness of a wholesale handling of such an enormous number of assessments. For this reason, a more precise test of the deliberate policy of the Board of Review has been made by taking

only those cases in which complaints have been made to the Board of Review and in which the assessments have been deliberately revised by that Board. These revisions should represent the deliberate and intentional policy of the Board. These cases constituted

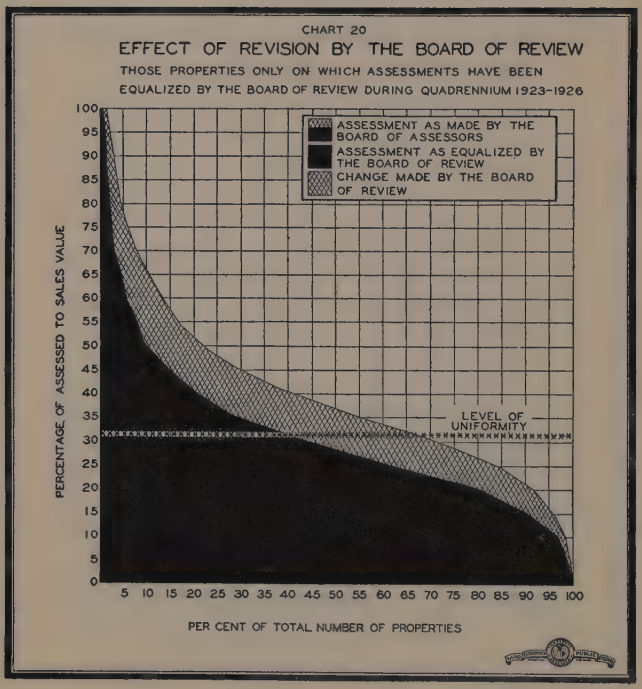


CHART 20
EFFECT OF REVISION BY THE BOARD OF REVIEW
THOSE PROPERTIES ONLY ON WHICH ASSESSMENTS HAVE BEEN EQUALIZED BY THE BOARD OF REVIEW DURING QUADRENNIUM 1923-1926
ASSESSMENT AS MADE BY THE BOARD OF ASSESSORS
ASSESSMENT AS EQUALIZED BY THE BOARD OF REVIEW
CHANGE MADE BY THE BOARD OF REVIEW
LEVEL OF UNIFORMITY
PERCENTAGE OF ASSESSED TO SALES VALUE
100 95 90 85 80 75 70 65 60 55 50 45 40 35 30 25 20 15 10 5 0
5 10 15 20 25 30 35 40 45 50 55 60 65 70 75 80 85 90 95 100
PER CENT OF TOTAL NUMBER OF PROPERTIES

2046 properties out of our total of 6445. The results are represented in Chart 20.

These properties came to the Board of Review with an average assessment of 40% and left it with an assessment of 33%. As originally assessed by the Board of Assessors, they showed an average deviation from uniformity of 37.9%; after equalization by the Board of Review, they were still 35% away

from uniformity. Thirty-one per cent of these properties were already below the average level of assessment established by the Board of Review itself, before they came before that Board, and had no ground whatever for asking any further reduction. They secured very much the same general amount of reduction as the other 69% of properties, which were originally assessed all the way from the average up to over 100%.

If there can still be any doubt about the character of the work of the Board of Review, Table 18 is commended for consideration. The headings at the top of the table indicate groups of properties assessed at various ranges *before revision* by the Board of Review. The percentages at the left indicate the groups into which these properties fell *after revision* by the Board of Review. For example, properties previously assessed at 91% and over are spilled out by the Board of Review over the entire range from that level down to 30%. Of 400 properties previously assessed at 21–30% (already substantially *underassessed*), 144 were dropped down to 16–20%, 27 to 11–15%, and 3 to the level of 6–10%. The brackets represent properties that have been left in the same percentage groupings after revision as before revision. Figures in any column *below the bracket* represent, therefore, the "spill" from the percentage groupings in which these properties were located before revision.

Policy Reflected

But the most disheartening aspect of this exhibit is not what happened to these particular properties, but the deliberate policy which it indicates on the part of the Board of Review. If this Board had rereviewed only a limited number of assessments and made therefore little change in the general character

Table 18

Effect of Revision by the Board of Review

Assessment of 1926

Those Properties Only Which Have Been Revised by the Board of Review

Ratio of Assessed to Sales Value after Revision	Properties Assessed before Revision at:									
	91% and over	81%–90%	71%–80%	61%–70%	51%–60%	41%–50%	31%–40%	21%–30%	11%–20%	1%–10%
101% and over	4	—	—	—	—	—	—	—	—	—
96–100	—	—	—	—	1	3	—	—	—	—
91–95	9	—	—	1	—	—	1	—	—	—
86–90	3	1	—	—	—	—	—	—	—	—
81–85	5	5	—	—	—	—	—	—	—	—
76–80	6	4	1	—	—	—	—	—	—	—
71–75	9	2	3	—	—	—	—	—	—	—
66–70	5	8	5	4	—	—	—	—	—	—
61–65	5	4	8	5	—	1	—	—	—	—
56–60	2	5	15	20	2	2	—	—	—	—
51–55	4	—	7	23	11	2	—	—	—	—
46–50	1	7	10	18	45	10	2	1	—	1
41–45	1	—	7	18	42	47	1	1	2	—
36–40	—	—	4	12	25	97	20	2	2	—
31–35	1	2	2	9	40	108	129	6	1	—
26–30	1	—	2	1	11	62	260	39	1	—
21–25	—	—	2	2	4	29	172	177	2	—
16–20	—	—	1	—	1	6	55	144	24	—
11–15	—	—	—	—	—	—	9	27	78	—
6–10	—	—	—	—	—	—	1	3	27	17
1–5	—	—	—	—	—	—	—	—	—	18
Number of Properties	56	38	67	113	182	367	650	400	137	36

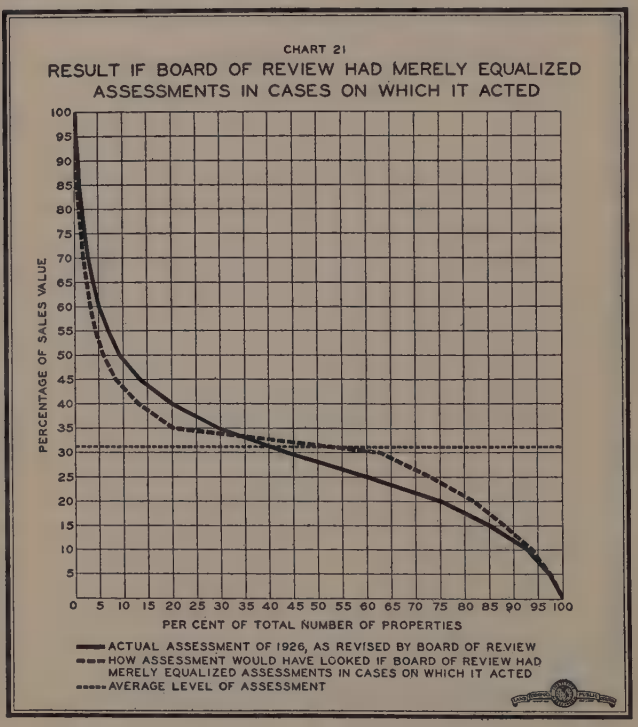
Total Number of Properties 2046

of the assessment as it came to them from the Board of Assessors, they might have been charged with inactivity but with nothing worse. As a matter of fact, they did take a very active part in the assessment. On the basis of our sample, from one-fourth to one-third of all the assessments must have come, at some time during the four years, to the attention of the Board or of employees upon its staff; or rather, this is the number of assessments actually *changed* by the Board of Review, without indicating how many more cases of complaint there may have been, in which no change in the assessment was made. If the Board of Review had made any effort in the direction of equalization *in those assessments which it did revise*, the result would have been reflected in a material improvement in the whole assessment.

Of these 2046 properties, 812 were over-assessed according to the Board's own average rate of assessment of 31.3% for 1926. If the Board of Review had done nothing else than bring these 812 properties down to that level, this alone would have had the effect of reducing the deviation from uniformity, for the whole assessment, from 37.7% to 32.5%. But 1176 of these properties were already *underassessed*, even on the basis of the Board's own average rate of assessment. If these properties had been pulled up to that level, the result of the two processes would have been to reduce the deviation of the entire assessment from 37.7 to 27.5%.

What even this small effort would have meant in the direction of equalization can be understood from Chart 21. Here we have brought forward the curve for the actual assessment as revised by the Board of Review and have compared it with the curve that would have resulted if the Board *had merely corrected the over-assessments and under-assessments in those cases upon which it acted.*

One curious circumstance is the fact that the properties coming before the Board of Review appear to represent, on the whole, the larger properties. The average value of the 6105 properties included in our study for 1926 was $35,821. The average value of properties whose assessments were not revised by the



Board of Review was $32,922. The average value of the 2046 properties revised by the Board of Review was $41,573. The average value of those properties coming before the Board of Review with assessments already at 10% of value or less was $148,328! It would appear that the larger taxpayers who are victims of discrimination on the one hand, or recipients

of favors on the other, prefer, or are obliged, to carry their cases to the Board of Review.

Similar measurements of the work of the Board of Review have been applied to the 1927 assessment, and the results are shown in Chart 22. The original assessment, as made by the Board of Assessors, shows a deviation of 35.8% from uniformity; after equaliza-

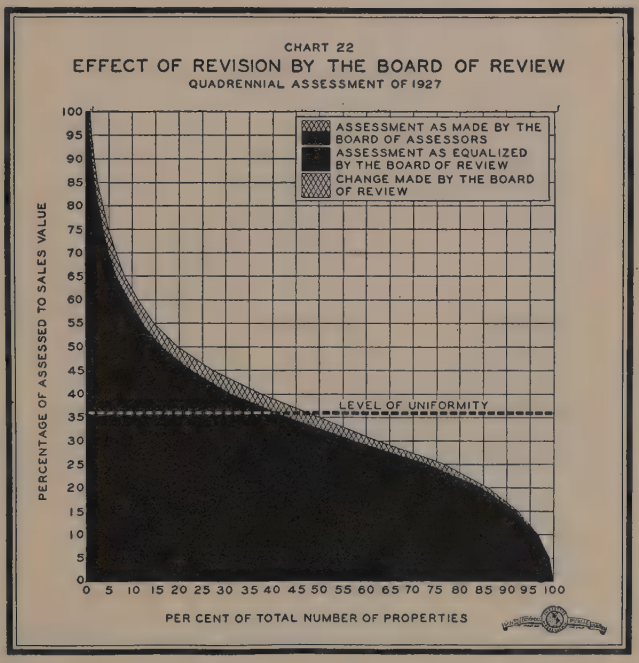


CHART 22
EFFECT OF REVISION BY THE BOARD OF REVIEW
QUADRENNIAL ASSESSMENT OF 1927
ASSESSMENT AS MADE BY THE BOARD OF ASSESSORS
ASSESSMENT AS EQUALIZED BY THE BOARD OF REVIEW
CHANGE MADE BY THE BOARD OF REVIEW
LEVEL OF UNIFORMITY
PERCENTAGE OF ASSESSED TO SALES VALUE
100 95 90 85 80 75 70 65 60 55 50 45 40 35 30 25 20 15 10 5 0
0 5 10 15 20 25 30 35 40 45 50 55 60 65 70 75 80 85 90 95 100
PER CENT OF TOTAL NUMBER OF PROPERTIES

tion by the Board of Review it is 36.5% away from uniformity. In other words, it was a more equitable assessment before equalization by the Board of Review than afterwards.

In order to make all possible allowance for accident, ignorance, and the haste with which the quadrennial assessment had to be made, we have again

segregated those cases only on which the Board of Review definitely acted and deliberately changed the assessments from the figures established by the Board of Assessors. The results of this deliberate revision by the Board of Review are shown in Chart 23.

Forty per cent of these properties were already below the average level of assessment established by

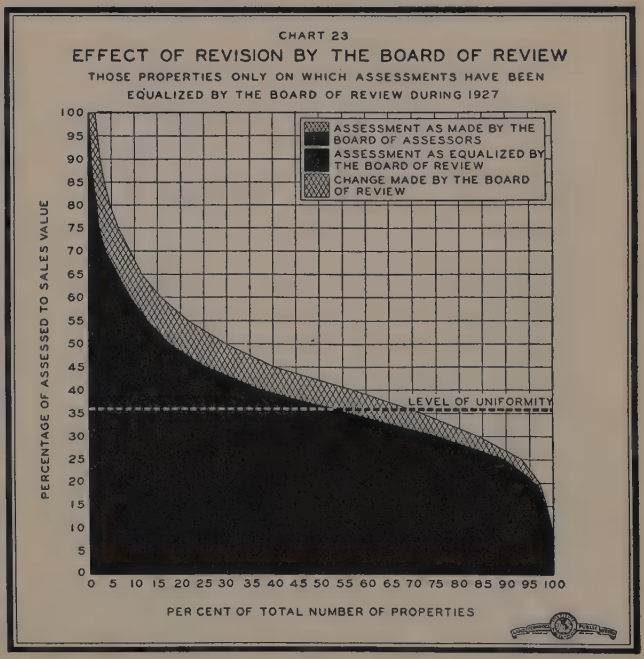


CHART 23
EFFECT OF REVISION BY THE BOARD OF REVIEW
THOSE PROPERTIES ONLY ON WHICH ASSESSMENTS HAVE BEEN EQUALIZED BY THE BOARD OF REVIEW DURING 1927
ASSESSMENT AS MADE BY THE BOARD OF ASSESSORS
ASSESSMENT AS EQUALIZED BY THE BOARD OF REVIEW
CHANGE MADE BY THE BOARD OF REVIEW
LEVEL OF UNIFORMITY
PERCENTAGE OF ASSESSED TO SALES VALUE
100 95 90 85 80 75 70 65 60 55 50 45 40 35 30 25 20 15 10 5 0
0 5 10 15 20 25 30 35 40 45 50 55 60 65 70 75 80 85 90 95 100
PER CENT OF TOTAL NUMBER OF PROPERTIES

the Board of Assessors, when they came before the Board of Review—29% of them were below the still *lower* level established by the Board of Review—and had no ground for any reduction whatever. On what grounds the Board of Review accorded these particular properties further substantial reductions, can only be conjectured.

Table 19

Effect of Revision by the Board of Review

Assessment of 1927

Those Properties Only Which Have Been Revised by the Board of Review

Ratio of Assessed to Sales Value after Revision	Properties Assessed before Revision at: 91% and over	81%–90%	71%–80%	61%–70%	51%–60%	41%–50%	31%–40%	21%–30%	11%–20%	1%–10%	
101% and over	3	—	—	—	—	—	—	—	—	—	
96–100	—	—	—	—	—	—	—	—	—	—	
91–95	5	—	—	—	—	—	—	—	—	—	
86–90	1	—	—	—	—	—	—	—	—	—	
81–85	5	1	—	—	—	—	—	—	—	—	
76–80	5	3	—	—	—	—	—	—	1	—	
71–75	—	2	4	—	—	—	—	—	—	—	
66–70	1	7	6	3	1	1	—	—	—	—	
61–65	2	7	16	7	1	—	—	—	—	—	
56–60	3	5	11	9	3	1	—	—	—	—	
51–55	2	—	9	19	15	1	—	—	1	—	
46–50	2	2	5	10	33	5	—	—	—	—	
41–45	1	2	3	14	50	27	—	—	1	—	Average rate of assessment established by Board of Review itself, i.e., 35.9%
36–40	—	—	—	9	32	99	9	—	—	—	
31–35	—	—	—	6	28	130	69	1	1	—	
26–30	—	—	—	3	8	48	159	16	1	1	
21–25	—	—	—	1	—	21	73	81	1	—	
16–20	—	—	—	1	—	4	21	57	4	—	
11–15	—	—	—	—	—	—	7	7	13	—	
6–10	—	—	—	—	—	—	—	1	7	3	
1–5	—	—	—	—	—	—	—	—	1	—	
Number of Properties	30	29	54	82	171	337	338	163	31	4	

Total Number of Properties 1239

In Table 19, the work of the Board of Review on the assessment of 1927 is set up in the same form as has previously been done in connection with the assessment of 1926. It should be explained that while the total number of properties here is only 1239, this represents the work of the Board of Review for approximately only the first six months after the completion of the assessment by the Board of Assessors. Twelve hundred represents, however, one-fifth of our entire sample; and this suggests the avalanche of complaints that poured upon the Board of Review and that would have continued, if the reassessment had not been ordered in 1928.

The Process of Equalization

The strange procedure by which the above results have been produced year after year has been described elsewhere[2] and will not be repeated here. Suffice it to say that the procedure employed bears no resemblance to any form of judicial review and affords every opportunity for secrecy, favoritism, and the play of ulterior influences.

[2] *The Tax Situation in Illinois*, pp. 20–22; quoted also in *The Tenth Report of the Illinois State Tax Commission*, p. 63.

CHAPTER VIII

SOCIAL AND ECONOMIC INGREDIENTS OF THE TAX SITUATION IN CHICAGO[1]

THE facts set forth in previous chapters present a somber picture of the public finances of a great city. About the facts themselves there is no longer the shadow of a doubt; and altogether they represent one of the most deplorable situations in municipal politics today. Those business and social leaders who attempt to dispose of them by calling them "growing pains," attributable to the youth and newness of the city, to its frankness in displaying its own shortcomings, and so forth, or who attempt to offset these sinister conditions by pointing merely to the phenomenal physical growth of the city, are, like the proverbial ostrich, displaying more of their tailfeathers than their heads. Indeed, it is largely because so many of the city's business leaders have retreated to this unseemly position that the city is *governed* so often by its tailfeathers rather than by its head. These facts are not symptoms of "youth," or of "growth," or of "frankness," or of anything of the kind. They are symptoms of intolerable political conditions, and it is futile to attempt to diagnose them as anything else.

But, it should be said likewise, these conditions are not entirely peculiar to Chicago. They have existed in other cities in times past; most of the ingredients of the

[1] Portions of this chapter have appeared in an article in the *Atlantic Monthly* of October, 1930. They are reproduced here by courtesy of the publishers of the *Atlantic Monthly*.

Chicago situation exist now in greater or less degree in other cities of the United States and nurture the possibilities of developing into a similar situation at any time. To those, therefore, who still believe in the potentialities of democratic government, this situation is not a subject merely for denunciation or cynicism, but one for serious examination of the various ingredients which by accident and otherwise have been so compounded in Chicago as to produce the deplorable situation now existing.

And needless to say, no serious student of political history will anticipate that this situation can be explained by any single "cause." The problem cannot be dismissed with a reference to "corrupt government," "ignorant voters," or any such simple explanation. Widespread conditions such as these are generally the result of a variety of forces—sometimes even of conflicting forces, like the "parallelogram of forces" in physics, where the final direction of movement is not in line with any of the causal forces but the net result of all of them. The "fall" of Rome has probably been explained in more ways than any other event in history, unless it be the fall of man himself—and with good reason, because that outcome evolved as the net result of an unusual number of active forces.

So the situation in Chicago is not the result of any one cause or of a dozen causes. It is *made up of ingredients*—ingredients common to most municipal communities in the United States but concentrated with unusual intensity in Chicago; and in the following pages, we shall try to isolate some of these ingredients.

I. *Legal Ingredients*

In the first place, Chicago finds itself imbedded in a legal structure, most of which, like the Ark, was con-

structed many years ago, for special purposes. Some of these purposes were legitimate, and some were not; but they all rode the Ark till it stranded in the summer of 1928. Three elements of this legal heritage particularly affect the problem of taxation.

Decentralized and Overlapping Jurisdictions

The first is the great variety of independent and overlapping jurisdictions that have been created within Chicago and Cook County, including the city "corporate," the Board of Education, the County Board, the Sanitary District, and a confused variety of park boards, "towns," villages, and other special jurisdictions. Some of these are the simple heritage of earlier conditions, such as the city of Chicago itself and the towns and villages in the county outside of Chicago. Some represent an effort to adjust territorial boundaries to the nature of the governmental function to be performed, as in the case of the Sanitary District. Some represent an effort to get an important function out from under undesirable political influences, as in the case of the Board of Education—an unsuccessful effort. And many of them represent only efforts to inflate the borrowing power (since each independent municipality possesses bonding power to the amount of 5% of its assessed valuation), to transfer valuable patronage from one jurisdiction to another, and further other political ends.

This governmental confusion does not directly affect the tax administration, since the unit of assessment is the county. It has disastrous effects, however, upon governmental expenditure, fosters the growth of inefficient and corrupt administration, and is a powerful influence in putting unscrupulous groups in control of the various local governments, who are thus enabled to extend their control over the assessment administration, even though that does rest on a county jurisdiction.

Uniformity Requirement The uniformity clause of the Constitution has practically limited the state and city to the general property tax, and has prevented the development of other types of taxation that might have eased the burden or improved the tax administration. At the same time, the uniformity clause has not brought about equality or protected the taxpayer from flagrant discrimination, the Illinois courts having held quite generally that mere inequality in assessment does not warrant relief, unless "fraud" can be shown on the part of the assessor; and of course, if the taxpayer can prove specific "fraud," he is entitled to relief without the uniformity requirement. The banks and railroads and a few other groups of corporations have frequently been accorded relief, where the court was confronted with a situation in which a whole class of property was deliberately subjected to discriminatory treatment; but for practical purposes the uniformity clause has afforded no relief to the ordinary individual taxpayer.[2]

The uniformity clause contributes still more directly to the existing situation by imposing the present form of personal property taxes. The uniformity clause requires the assessment and taxation of personal property upon the same basis as real property. In the case of most forms of intangible property and of many other kinds of personal property, this is utterly impossible, and no pretense is made of assessing

[2] The recent decision of the Illinois Supreme Court in *Douglas v. Harding* and *Aldrich v. Harding*, decided June 20, 1930, seems likely to materially modify the trend of Illinois decisions under the uniformity clause. In these cases the complainants, owners of real estate situated in Chicago, based their complaint not upon allegation of specific fraud in the assessment of their particular properties, but upon allegation of flagrant inequalities throughout the entire assessment, with *resulting discrimination* against their properties. Most of the tables and charts in Chapters VI and VII of the present study were incorporated in the brief for complainants.

The Court, in sustaining an injunction restraining collection of taxes on assessment in excess of 40% of full value, said:

"The assessors, it is charged, actually intended to, and in fact did, undervalue most of the property, but without system or uniformity, with the result that

such property with any approach to generality. Nevertheless the *power to assess it* is lodged with assessing officials and places in their hands almost unlimited autocratic power for the promotion of personal and political ends.[3]

Decentralized Assessment Administration

But the legal element that has contributed most decisively to the present situation is the system of assessment administration, created by legislation of dubious parentage in 1898. Much superfluous moralizing may be avoided by recognizing at the outset that to a large extent the conditions disclosed in previous chapters are only the logical result of an utterly impractical system of administration—a system characterized by absence of scientific method, duplication of function, diffusion of responsibility, and secrecy in its operation. All this has been discussed elsewhere,[4] and it will be sufficient to observe here that such a system, even if operating in a community of saints, could not do otherwise than produce gross inequalities and chaotic results. Needless to say, it has not been operating in a community of saints, and its results have been worse than merely chaotic.

We may summarize the most important legal "ingredients" in the situation, then by saying that Chicago finds itself at the moment enmeshed in a

some property was grossly over-valued and some property grossly under-valued, so that the amount of taxes which any particular parcel, block or district of land was called upon to pay depended solely on the individual assessor's whim, the amount of the former assessment, the character of the community, the use to which the land was put, and, frequently, the ownership."

* * * * * * * *

"In the instant case it is apparent that the differences in value of the various kinds of property could not have been the result of differences of opinion but were arbitrary and willful on the part of the taxing authorities. The allegations of the bill, we think, satisfactorily show that appellee could not have obtained relief against the arbitrary, willful and apparently fraudulent assessments made, in any proceeding before the taxing or reviewing bodies and he necessarily sought a court of equity in which to proceed."

[3] For fuller discussion of this subject, see pp. 225–246 below.

[4] *The Tax Situation in Illinois*, Chapter VII.

system of decentralized, overlapping, conflicting municipal governments, which have been set up at various times since 1837; imbedded in a constitutional mandate enacted or reenacted at various times since 1818, which limits the city to the general property tax, including all of the vicious elements associated with the present personal property tax; and subjected to an assessment administration, established in 1898, which specifically fosters inefficiency and irresponsibility. This is the legal framework within which the present situation in Chicago has developed. And if one will reckon the age of the various portions of this framework and contemplate the revolutionary social changes that have taken place since most of it was constructed, he will readily surmise that it must by this time have undergone a heavy obsolescence. The present situation in Chicago represents to a large extent this "obsolescence cost."

II. *Political Ingredients*

This governmental structure has come down from the past; but one of the chief obstacles to its alteration and improvement lies in the political conditions that have prevailed in recent years. The level of politics and government, like other things, rises and falls over long periods of time. It would not be difficult, for example, to plot a "curve" of our national government over the past century and a half, with its long upward swings and downward dips, and probably with pretty general agreement at least as to the location of its "peaks" and "bottoms." While it would be premature, in view of the limited development of quantitative measurements in the field of political phenomena, to speak of "cycles" in these long swings, there is no doubt that the forces that produce them are *cumulative* in both directions; and it requires no more elaborate

theory than that of the rolling snowball to explain it.

In Illinois and Chicago, the curves of both state and municipal government have sunk in recent years to the lowest levels since the Civil War, if not for a longer period. The scandals connected with recent state and city administrations, the record of the Sanitary District, the buffoonery associated with the Board of Education, the indictment of judges, the conviction and penal sentence of public officials, and the whole crime wave are only the more notorious episodes of the current status. They will not be discussed here; but suffice it to say that under such conditions it would be a miracle if any system of taxation produced results greatly different from those that have been shown to exist.

No such miracle has occurred in the period under survey. On the contrary, we find, as we should expect, that the tax system has become the mere adjunct of whatever political organization is in power. Indeed, the most disheartening thing about it is not merely the fact itself but the openness and frankness with which the fact is avowed by political representatives. Precinct captains and ward committeemen openly boast of their ability to "take care" of their constituents; and the representatives of political organizations in general throughout the city appear to take it as a matter of course that a part of their regular duties consists in making the necessary adjustments in the assessment of property.

The result is, that in addition to a regularly constituted board of assessors and board of review, Chicago has an extra-legal, *ex-officio* board of revision, consisting of the representatives of party organizations throughout the city, who are engaged every day of the year, without regard to constitutional requirements or quadrennial limitations, in the business of revising

assessments to suit the exigencies of party organization. But the most sinister consequence of it all is not so much the baneful character of the political organization in control of the government, as the fact that this whole organization is built to a large extent upon the present tax system, derives its revenues and resources therefrom, and is therefore vitally dependent upon the continuance of the present tax system. The reader will readily apprehend how much of an obstacle this represents in the way of any proposed change in the present system of assessment and taxation.

III. *Economic Ingredients*

One would suppose, in view of what the city has suffered financially and otherwise from its present tax system, that the business and financial interests and property owners as a whole would be overwhelmingly in favor of substantial changes in the system. But as a matter of fact, there are large economic interests that are tied up in one way or another to the present regime—interests which may be said to hold *equities* of various types in the present tax system. An illuminating study could be made of these *equities*—their various types and relationships and the mode of their acquisition. In the limited space of the present chapter they can be only briefly outlined.

1. Vested Interests In the first place, there are the vested rights of members of the Board of Review, Board of Assessors, the thirty local township assessors, and other officials connected with the tax system, in the various offices to which they have succeeded in the regular processes of party organization and operation. This group of interests is mentioned with some hesitation, because it must seem to the reader like an academic effort merely to enumerate everything possible in an exhaustive list, without regard to its practical

importance. It is included here only because it has been advanced by some of the highest officials in the state as a serious consideration against any legislation that would abolish existing offices in such a way as to deprive tax officials of the offices they now hold. Any such legislation, it has been urged, should take effect only on expiration of present terms of office. The Speaker of the Assembly himself has asserted that it would be utterly unreasonable to ask a Republican legislature to abolish Republican boards and offices, the implication being that the present Republican administration could not be expected to do anything contrary to its partisan interest, however desirable or necessary it might be from the standpoint of the public.

But more ominous than the frank partisanship implied in this and similar statements by other high officials, is the perfectly sincere and spontaneous assumption that a certain element of *vested right* inheres in these official positions. The explanation is not far to seek and, indeed, has been avowed with almost equal frankness. These offices have been conferred in the regular process of party organization, in return for services the incumbents will thereby be in position to render to the political organization. This involves on the part of the candidate the expenditure of large sums in connection with nominations and elections; and more than this, it involves the assumption of a great variety of obligations, personal and otherwise. To deprive an incumbent of office before he has had opportunity to liquidate these obligations (some of which are continuing obligations) is worse than merely violating political understandings; it is like deliberately forcing an associate into bankruptcy. This is the nature of the vested interest which tax officials hold in the present system of assessment.

In any appraisal of the financial value of this vested interest, the reader will understand that the salaries associated with the various offices are a negligible item. It is the indirect emoluments that figure, and they must amount to millions of dollars.

2. Allied Interests Outside the close circle of vested interest, there are two wider circles of closely allied interests. The first is the zone of political "tax-fixing," delicately referred to in the recent trial of a member of the Board of Assessors in the Federal Court, when the prosecuting attorney announced to the court that one of the defendant's sources of income would be shown to be "what is commonly known in Chicago as *fixing taxes*." This zone embraces precinct captains, ward committeemen, and a whole hierarchy of party representatives. Under the old regime, that is, the present regime prior to the reassessment, one could sit in the Board of Review and Board of Assessors' offices and see these men come in with their pockets bulging with the crumpled tax bills of constituents to be "fixed."

Immediately outside of this circle is the wider circle of allied interests made up of private and professional "tax-fixers," whose methods and activities are too varied to be discussed in the space of this chapter and probably too well known to require discussion.

3. Beneficiary Interests Outside of these three circles of rather special interests is the great circle of property interests that benefit from the present system. This includes, in the first place, entire districts which have been favored with low rates of assessment. In this circle will be found the whole of Calumet (p. 61), industrial districts in the southern and southwestern sections of the city, and many of the "country" towns in Cook County outside of Chicago, including a number of the wealthier suburban districts along the North Shore. These districts have been hostile to any

proposed change in the tax system that would deprive them of the low assessments they have enjoyed for years.

This circle would include, in the second place, certain classes of property that have enjoyed low assessments. It included vacant land until 1926, when criticism was directed against this practice. It has apparently included certain groups of hotel and theater properties. But the class of property most conspicuously included in this zone of interest is made up of manufacturing and industrial property. It is difficult to secure exact data here. Our own figures (p. 71), as has been indicated, applied only to the smaller industrial properties, including a large number of "loft" properties, garage and service stations, repair shops, and similar establishments. The larger industrial plants are not ordinarily the objects of purchase and sale.

But all the information available appears to indicate that the manufacturing industries, particularly the larger companies, have been more successful than most groups in keeping their assessments and taxes down. This has apparently been the case to a greater extent throughout the rest of the state even than in Chicago. It has been due, in part, to the difficulties inherent in the assessment of industrial property, particularly by local assessors entirely untrained for this difficult field of appraisal; in part, to the fact that industrial assets consist largely of personal property of one form or another; in part, to the presence of an aggressive organization equipped to look after the interests of its members; and finally it has been due in large measure to the competition of cities and communities for the location of new industrial plants. Even in the case of established plants, the constant threat to "move" is one of the most effective means

for tempering assessments. It is difficult to learn of actual removals that have been made specifically on account of taxes, and probably such cases are rare; but the threat is none the less effective.

The consequence is that manufacturing industries are apparently escaping with a minimum share of property taxes under present methods of assessment, and will therefore profit by a continuance of the present system. It is this situation that unfortunately identifies the interests of the manufacturers' associations with that of the present official and political groups and other allied groups, who are profiting by present methods of assessment and will lose some of this advantage under any change in the system.

In addition to districts and classes of property which are benefitting under the present system, is the wide list of individual beneficiaries scattered among all sections and all classes of property. This is the most numerous list of all and has been amply illustrated in previous chapters.

What the aggregate financial interest represented by these various groups of beneficiaries might amount to, it would be impossible to compute. But the total of taxes remitted to favored groups has been shown (p. 82) to amount to some $30,000,000 annually. This would represent property with a full value of approximately $1,500,000,000. And this represents only real estate taxes on forms of property that can be caught in the process of real estate transfers. It does not include taxes evaded or reduced on large industrial and other types of property that are not objects of real estate transfer, taxes on personal property, or any of the indirect emoluments and advantages associated in one way and another with the whole system.

It is in the field of these indirect advantages that some of the largest interests have been built up. In the

case of a business with favorable affiliations, the amount of taxes reduced or the patronage conferred may be of minor consequence in amount; but either may be sufficient to drive competitors out of a particular portion of the market. The enhanced profit derived from this favorable position is what counts.

4. Fear of Retaliation In addition to the ties of positive interest among the groups that have been enumerated, there is a very different but very influential economic element. This is the fear of retaliation at the hands of assessing officials. There are millions of dollars' worth of property and thousands of property holders, particularly among the larger property holders, held in a constant state of apprehension as to what is going to happen to their assessments from year to year. In the case of large office buildings and some other properties with a heavy fixed overhead and a narrow margin of profit, a material difference in assessment and taxes may mean the difference between an operating profit and a loss.

In sharp contrast with the narrow margins upon which many properties must operate is the wide range of possible assessment available to assessing officials. The combination of the two things, *narrow margins of profit and wide range of assessment*, provides assessing officials with as arbitrary power over the property and fortunes of wealthy citizens as any Central American dictator could desire; and one who has not been in contact with the situation cannot realize what this fear of retaliation means in Chicago. It explains many things in the attitude and conduct of business leaders, which outside observers are at a loss to understand. It secures political contributions, compels silence, and deters business men from serving on committees, participating in activities, or being in any way identified with movements directed against the present sys-

tem. This will be discussed somewhat further in another connection, but is included here in order to indicate the large economic interest that is held in passive abeyance to the present system.

When one undertakes to compute the huge economic interests involved in the various groups that have been enumerated—vested interests, allied and beneficiary interests, and those interests subject to constant fear of retaliation, he will wonder not so much that Chicago has made little progress in taxation but that it has made any at all. And from these various groups the reader may construct a concise picture of the Tax Racket in Chicago; for the first two groups constitute the Racket, the third its beneficiaries and supporters, and the fourth its victims, actual or potential, whose properties are hostages for at least a passive assent to the present regime.

Fortunately, there are a few oases of business interest that would benefit through more or less substantial changes in the tax system. One of these is inhabited, in the main, by the owners of large properties in the Loop and downtown district, whose properties have been heavily assessed under the present regime.[5] They have actively supported the work of the Joint Commission on Real Estate Valuation, have initiated successful litigation directed against the validity of the 1927 assessment, and, in general, have supported the reassessment ordered by the Tax Commission.

Another such oasis is peopled by certain real estate groups, who have been driven in from the desert by the hard times there prevailing. In the period when real estate values were appreciating, and real estate in the outlying districts, particularly vacant land,[6]

[5] See pp. 36, 49, 63, and 66.
[6] See pp. 39, 51, 71, 72 and 73.

was receiving favorable treatment, the real estate groups in general were on favorable terms with the present system and antagonistic to proposed changes. But the deflation of the real estate market has broadened the perspective of Chicago real estate groups; and under intelligent and progressive leadership, these groups are now among the most vigorous advocates of constructive tax legislation.

A third group represents largely the owners of the newer hotels and apartment buildings on the North Side, whose properties have suffered severely from the overbuilding and excessive vacancy of the past two years. Almost any assessment on the basis of property values would be a heavy burden upon their properties in terms of income. They have been antagonistic to the reassessment, but logically enough, have been driven to the position of advocating an income tax.

A fourth element is represented by the banking groups, whose interests have been jeopardized by the threatened collapse of the city's credit.

But the interest of these various groups in improving the tax system has for the most part been special and temporary. The downtown building owners have supported the reassessment, and have been gratified with its results in lessening the discrimination against them—and most of them have been satisfied with this. Individual representatives of this group have been among the most conspicuous leaders in the movement for constructive reform. But as a whole, the downtown property owners are more than satisfied with what has been accomplished for their own properties, and many are inclined to feel that anything more would be "going too far." The banking groups have raised millions of dollars and have worked with remarkable public spirit to preserve the solvency of the city's

credit, supporting particularly the emergency relief legislation enacted by the recent special session—but are apparently satisfied with this. The real estate groups are sharply divided, and are only partially following the broader leadership that has emerged in Chicago. And so it goes.

It is apparent, therefore, that the economic groups definitely aligned with the present tax system are not only preponderant in quantity, but have an overwhelming advantage in the continuity of their interest and the clarity of their objectives.

IV. *Social Ingredients*

In addition to legal, political, and economic factors, there are certain social and psychological elements that go to make up the Chicago "complex." These are much less tangible and obvious elements, and less generally admitted, but certainly not less important than the factors already enumerated. Like these former factors, the social and psychological elements are not by any means peculiar to Chicago. They are common more or less to large cities everywhere; but in their groupings and degree they appear to be characteristic elements in the present tax situation.

Level of Political Intelligence

The first has to do with the general level of political intelligence prevailing in Chicago. Much has been said and written about Chicago's foreign population, unfamiliar with the language and ideas of America, and about its large Negro element on the South Side and in other sections of the city. The latter race particularly has been made to carry the onus of many local conditions—declining real estate values and others. Yet, so far as can be ascertained, there is nothing to indicate that these groups are, on the whole, less intelligent or capable than the general population of the country elsewhere. In business com-

petition, in the acquisition of property, and in getting on in general, these various peoples have shown surprising capacity.

Likewise, it would be ridiculous to assert that the people of Chicago are on the whole any less intelligent than the people of other American cities. Certainly their own achievements, and their own opinions, are to the contrary. And if there is any basis for the prevalent belief that the best brains have for years been drifting from the country and smaller towns to the larger cities, Chicago must have been greatly enriched by its growth of the past two decades. If there were some means of measuring the brains and intelligence per square mile or per cubic foot of building contents, it is safe to assume that Chicago would register as high an average as would be found in any large city.

But while the attainments of the past decades are in every way a tribute to the brains and energy of the city, there is much to indicate that in one field, that of political intelligence, the people of Chicago are subnormal; or since there is no definite standard of urban normality in this respect, perhaps we should say simply below the level of other communities. We are speaking here not of political *capacity*, if that capacity were afforded adequate opportunity for development, but of political intelligence, in the sense of cognizance of political situations, relationships, and their more obvious implications. There are highly developed *nuclei* of group consciousness and group activities in Chicago, not merely in the form of the over-rated "gangs" but of trade, business, professional, and neighborhood groupings; and wherever politics can be reduced to a common denominator with any of these groupings, it encounters a ready comprehension. The success of the present type of political leadership in the city is based largely upon the art of reducing political issues to the

small denominations of these various groupings. But this is a Latin-American type of political consciousness, rather than Anglo-Saxon or European.

Any one who will take the pains, systematically and conscientiously, to converse on political subjects with a hundred Chicago people, distributed throughout territorial, social, and occupational groupings, cannot fail to be convinced of the truthfulness of the characterization above. The writer is prepared to conduct observation tours through the smaller cities and towns of Ohio, Wisconsin, Minnesota, and elsewhere, where it can be demonstrated that the average inhabitant knows surprisingly more about political situations, bearings, and relationships in their respective states and communities than can be found in Chicago.

The existence of such contrasts will probably be conceded by students of political science generally, and certain obvious explanations will readily suggest themselves. The most obvious is the influence of the size of the city itself. A community of three-and-a-quarter millions is not a "community" at all. It is neither a "*polis*," in the original sense of the Greek word, nor an "*urbs*" in the sense of the Latin. Chicago is a honeycomb of many cities, with many races, languages, topographies, and backgrounds. We call it a metropolis; a better word would be *polypolis*, a city of many cities; and a *polypole* cannot possibly familiarize himself with the personalities, affiliations, and relationships involved in the politics of his city, or the implications and bearings of movements, issues and measures.

Furthermore urban life means specialization—occupational, social and otherwise, which necessarily narrows the range both of one's interests and of one's intelligence. An advertising man, specializing in

direct advertising campaigns for manufacturers of bathroom and plumbing fixtures, is not likely to know much about the bearing of the governor's appointments to the State Tax Commission upon his home city affairs. Yet it may be the most important thing that happens to him—politically—in a year.

And in addition to all of these things, urban life surrounds its victims with a "non-conducting" stratum of distractions, diversions, interruptions, and appeals to one's attention, which provide effective insulation against vital contact with many of the significant things of life. In the midst of these, one not only does not need politics as a topic of conversation or a subject of interest, but it requires a mental effort to motivate an intelligent interest or familiarity with anything other than the superficial and sensational aspects of politics. In smaller communities in many sections of the United States, strange as it may seem, politics is still an absorbing topic of neighborhood talk.

But these environmental handicaps do not explain all of the differences in political interest and intelligence. Long established political systems and "regimes," traditional political standards, accustomed types of political leadership, systems of education, character of the press, and the customary attitude of influential individuals and groups in the community—all either stimulate or retard the development of political intelligence; and in many of these respects the antecedents of the present generation of Chicago citizens have not been fortunate.

Whatever the number and influence of the contributing causes, the result has been the establishment of a low level of political intelligence. Plato said man is a "political animal;" the average Chicago man is not. He may be an industrial "giant," a financial wizard,

a "bull" on the market and on his city generally, a "whale" of an athlete, and either a "lion" or a "lobster" socially, but politically he does not qualify for the Ark in other capacity than that of the humble animal upon which Baalam rode into power—and eventually to grief.

And if the Chicago man is not a political animal, the Chicago woman is less so. Women's clubs and organizations have displayed a great deal of activity in civic matters, and along some lines have accomplished extremely valuable results. Politically their effect has apparently been *nil*—or worse. For they seem to have succumbed to picturesque, sensational, and misleading political devices even more readily than men; and where they have not succumbed to the devices of practical politics, they have *imitated* them, rather than sought to improve them.

And political organizations in Chicago have exploited the specialized psychology of appeal to women voters with admirable dexterity, in the organization of political campaigns, in utilizing the prestige of social leaders, and in the "line" of eloquence handed out by campaign speakers. When Mayor Thompson, for example, in speaking before a rather select north-side women's audience in his campaign for re-election in 1927, addressed them as dear "fellow hoodlums," the picturesque bravado of his salutation completely won his audience.

So far as Chicago is concerned, it may be doubted whether woman suffrage has thus far contributed any improvement to its politics. And without intending any discourtesy to the rest of the country, the area of doubt may well be extended. This is not a reflection upon the principle of woman suffrage, in which the writer has firmly believed since the days of Frances Willard; and women will eventually contribute a

distinctive and helpful influence in politics. But it has been the history of the past that every newly enfranchised class has lent itself to conspicuous types of political exploitation, and such has apparently been the history of woman suffrage thus far.

Low Valuation of Political Integrity

Upon this low level of political intelligence is set up a deflated scale of values attached to qualities of political integrity and honesty. Indeed, such qualities are not thought of as prerequisites for public office; and it may be doubted whether they would longer be reckoned among political assets at all. Correspondingly, the discount upon dishonesty and criminality in public office has declined to a level that seems scarcely believable. Public officials are convicted of graft, corruption and outright crime; and it is accepted with a cynical smile or a gesture of indifference. So much so, that after the experiences of recent years it is difficult to conceive of any form of political malfeasance that could shock the sensibilities of Chicago people. Tacitus observed nearly two thousand years ago that in Rome, contrary to the usual laws of supply and demand, "virtue is least valued in periods when it is most rare." His observation would be true of Chicago.

"Diminishing Marginal Utility" of Political Action

And strangely enough, one factor that has impaired the quality of citizenship in recent years is nothing other than the high level of political welfare that has been attained by the people of the United States and particularly by the dwellers in our large cities. The quality of citizenship has always reached its highest levels in periods of storm and stress, when there were critical issues at stake or large objectives to be won. When civil and religious liberty, the right of suffrage, representation, national independence, freedom from oppressive restriction, or fundamental constitutional rights were

the things to be attained through political agencies, the political sphere was overwhelmingly important and political interest was intense.

Now, with the people of the United States in full possession of civil liberties and political rights, with a highly developed scale of social legislation, with universal public school education and with various forms of higher and technical education made available to practically everyone at government expense, with universal postal service, rural free delivery, and air mail, with concrete highways stretching from the Atlantic to the Pacific that everyone may travel freely except for the cost of gasoline, with modern systems of sanitation and protection of health, with parks, playgrounds, bathing beaches, and what not, one might almost inquire what more there is for the citizen to ask through the agency of government. It is true, he has the right to demand more honesty, economy, and efficiency in the performance of these services; but after all, these are rather abstract ideals in comparison with the concrete and pressing things he has needed for hundreds of years and is now getting. In terms of political economy, the very abundance with which our political wants have been satisfied through the progress of the past century has greatly reduced the "marginal utility" of further action through political agencies.

Now this situation, abstract and theoretical as it may seem, has contributed enormously toward perpetuating conditions existing in Chicago, in this way. Many a business man and representative of large property interests has been shown the injustice of assessments, including his own, and has expressed sincere and vociferous resentment. That is as far as his protest goes. He cannot take the time to attend conferences, serve on committees, or participate in any organized movement to improve conditions. And un-

happily, the truth is that in most cases it probably would not pay him to do so. He might save thereby a few thousand dollars a year in taxes or in the process of having his taxes taken care of; but in the position he occupies and the general scale of living he has reached, the same amount of time devoted to business, recreation, or almost anything else would yield more than an equivalent return. "It isn't worth the trouble," is the way it is generally put; and probably nine times out of ten it is perfectly true—from the standpoint of the individual.

The writer has conferred from time to time with a considerable number of men of means, who have sat in their offices and talked—in some cases as long as two hours at a time—about the evils of the tax system; but who do not take occasion to do anything about it because it simply isn't worth the trouble. He has talked with a large number of small property owners and home owners, many of whom are in the habit of making cynical observations about the graft and corruption of the tax system. In a surprising number of cases, they do not know what their homes are assessed for. The taxes generally run around $300, $450 or $500, as the case may be. When assured that their particular properties are clearly over-assessed (if that is the case), and that they ought to look into the assessment—"Oh, well, it isn't worth the trouble."

And so in practically all walks of life our political amenities are so great, compared with anything the world has known before, that additional effort in this field will no longer bring as large returns to the individual as the same amount of effort directed toward business and professional pursuits, or toward automobiles, radios, sports, and vacations, where our shortages are more acute. The result is a mass of indifference that is the more dangerous because it is a fairly enlightened

indifference. But it has probably contributed more than any other single influence toward bringing about the tax conditions now existing in Chicago; and at the present time it is the one greatest obstacle to their removal. If diminished prosperity would change this attitude, as it has already brought the real estate and other groups to the "mourner's bench," there is probably no city in the United States to which a period of "hard times" would come as a greater blessing than to Chicago.

Over-Organization and Patternization

And finally, organization, standardization, and "patternization" have probably been carried as far in Chicago as anywhere in the United States. Everybody is "organized" in one way or another, and one is fortunate if he has not been organized in half a dozen different ways by as many different organizations and organizers. Everyone's conduct is standardized or in process of being standardized by some code of business or professional "ethics" or some committee on standardization. The gangs and "rackets" are only pathological variants of what is in Chicago the "normal type."

The consequence is that one rarely travels outside the intellectual orbit of his own organization or affiliations, whatever these may be. He moves when the caravan moves and would be unaffectedly surprised at any one who expected him to move differently. "Footprints on the sands of time" do not interest him. The typical Chicagoan prefers to stay on the concrete and follow the traffic. The real estate man must wait to see what his "Board" is going to do about it. The building owner thinks he is meeting the issue squarely when he tells you they have a committee on the subject, "they" being either the Chicago Building Managers' Association or the National Association of Building Owners and Managers. The banker is "wait-

ing" till the State Bankers Association meets at Rockford or elsewhere. The manufacturer tells you with naïve finality that that issue was settled by the report of the Illinois Manufacturers' Association last year. Individual independence is not so much condemned as simply unknown.

On purely business and technical matters or matters of direct pecuniary interest to their members, these organizations of course function with a high degree of efficiency. But on broader questions of public interest they tend to a large extent to displace individual conviction and action and to substitute nothing in its place. The result is organized inertia.

Summary

Now, when we have a citizenship, which, however spectacular its achievements otherwise may be, is nevertheless characterized by a low level of political intelligence; a citizenship which habitually places a low valuation upon political honesty and integrity; a citizenship steeped in the chronic indifference that comes with prosperity and a high level of general well-being; and a citizenship which habitually evades intellectual conviction and independence of action by the easy *alibi* of a committee or an organization, we have the soil from which no other political growth could be expected than the present government and governmental conditions in Chicago. And it is unlikely that these conditions will be greatly or permanently changed until the soil from which they grow is changed.

CHAPTER IX

THE MOVEMENT OF PROTEST

FROM the description of conditions in previous chapters, it becomes reasonably evident why, in spite of the flagrant inequalities of assessment, no effective movement of protest against them had ever developed. The evils of the system had fallen in the main upon the unorganized, less intelligent, or less influential groups in the community.

In the first place, the suburban towns outside the city of Chicago were almost uniformly escaping with assessments at about two-thirds the rate of assessment in Chicago. Within rough geographical limits, this favorable position represented the influence of wealthier residential groups in the northern suburbs, organized real estate interests in the North and West, industrial interests in the South, and strongly entrenched political organization in the intervening territory, in such sectors as Blue Island and Cicero.

Within the city of Chicago itself, the hardships of the system were widely distributed—if that is a sound canon of taxation; but they fell particularly upon unorganized and non-resistant groups. This included, in the first place, the small homeowners, the least organized and least militant of all groups of property holders. It included the smaller properties in general, commercial, industrial, and miscellaneous. It included preeminently the Negro element on the near South Side. And it included a large number of individual property owners of every class, found vul-

nerable on account of their ignorance, indifference, anxiety to avoid trouble, and not infrequently the exposed nature of their business, their competitive necessities, and so forth.

Perhaps more than lack of organization and influence on the part of the groups suffering most was a general ignorance of the actual state of things. People do not revolt over "ills they know not of," however much they may unwittingly suffer therefrom. In this case property holders knew they were paying excessive taxes, and there was a constant protest against "high taxes" in general. But exploited taxpayers, even the larger property holders, did not know that other property holders were paying only half as much taxes as themselves.

Chicago people in general did not know that Calumet was "getting by" with an assessment of 9 to 10% and some northern villages with about the same rate of assessment. Homeowners did not realize that they were paying nearly twice the rate paid by owners of vacant land held for speculative purposes. Small homeowners did not know that they were paying 20% higher taxes than the owners of large homes. And the 90,000 property holders who were assessed in 1926 at from 50 to 100% of full value never surmised that there were 150,000 other property holders assessed at from 1 to 15%. The writer has cited elsewhere illustrations of property holders who were elated when they secured *reductions to 60% of full value* in the 1926 assessment, in entire ignorance of the fact that the rest of the town paid taxes in that year on an assessment of 31.3%.

The Teachers' Organizations

Ignorance such as this is not the condition out of which organized revolt grows. And so it happened

that for years about the only active agitation against the tax administration was that carried on by a group of teachers' organizations in the public schools of the city.

As far back as 1900, Catherine Goggin's name appears in a variety of tax hearings and tax litigation.[1] Catherine Goggin was Financial Secretary of the Chicago Teachers' Federation, an organization of the primary teachers of the public schools, of which Miss Margaret Haley was, and still is, Business Representative. Their card of entry into the tax situation had been threats by the Board of Education to reduce salaries, the crowding of children in the schoolrooms, and generally inadequate provision for the needs of the public schools—all on the ground of inability to secure adequate revenues through taxation. The teachers asserted that if it were not for unscrupulous evasion of taxes and collusion by tax officials in permitting such evasion, there would be an abundance of money to run the public schools without hardship to honest taxpayers

In the case cited, they had concentrated attack upon the assessment of the capital stock, or "corporate excess," of a group of corporations by the State Board of Equalization, in an effort to compel assessment at something approaching full value. They had carried these cases to the State Supreme Court, which ordered a substantial increase in assessment. This had the effect, however, of putting the assessments of these particular properties out of line with the general level of assessment prevailing at the time, and the defendant companies went into Federal Court on the ground of "due process" and deprival of "equal rights."[2]

[1] For example, *State Board of Equalization et al. v. People ex rel. Catherine Goggin et al.*, 191 Ill. 528 (1901).

[2] *Chicago Union Traction Co. v. State Board of Equalization et al.*, 114 Fed. 557 (1902); *Raymond v. Chicago Union Traction Co.*, 207, U. S. 20 (1907).

The outcome, curiously enough, was that an action brought in the state courts to enforce compliance with the revenue statutes was enjoined in the Federal Court as a violation of the revenue clause of the state constitution; and the Board of Equalization found itself in the position of being mandamused by the State Supreme Court to do something which it was enjoined by the Federal Court from doing. Not much was accomplished otherwise; but the action revealed the character of the work of the State Board of Equalization and established the Teachers' Federation as a fighting organization on the tax question.

Since that time other teachers' organizations, including those representing the principals, the high school men teachers, high school women teachers, and various other groups, have given considerable attention to tax problems and have made the local tax administration one of their principal objects of attack. And it may be said, they have had every justification for doing so, in view of the extent to which politics has been injected into the school system, school funds diverted to other than educational ends, and numerous ways in which financial policies have hampered the educational work of the schools. The teachers of Chicago have virtually been placed in a position where they had to take the bull by the horns or be gored by it, and they courageously chose the former alternative.

A more accurate knowledge of tax problems would have enabled them to direct their efforts at times along more effective lines. Their general objective has been to point out the availability of larger revenues, particularly for the schools, by calling attention to various forms of evasion of taxes under the present tax administration. Two of the most conspicuous of these are the capital stock taxes, already referred to,

and the assessment of intangibles. On these two fields the teachers' organizations have unfortunately concentrated a large part of their effort, although neither of these elements is capable of remedy by isolated treatment. Consequently the efforts of the teachers' groups, down to the period of the present study, had been largely ineffective so far as actual results were concerned.

But they have been instrumental in concentrating attention upon tax conditions at times when no one else cared or had the courage to do so. The strongest evidence of their effectiveness in this respect is the extreme irritability with which their activities have been regarded by tax officials and other government representatives, culminating in a public threat by the President of the Board of Education of Chicago to discharge any teacher who contributed to a proposed investigation of the tax system.[3]

The Board of Education Appraisals

In the summer of 1926, under the pressure of revenue needs, the Board of Education and the City Council, with the support of a number of the teachers' organizations, had an appraisal made of a large number of properties for the purpose of discovering evasion or under-assessment. The Loop district particularly had been included in this appraisal, in the belief that this would disclose a large amount of under-assessment. On the basis of these appraisals, assessments were found to run much below full value, and efforts were made to induce the Board of Review to raise the assessments on these properties. Failing in this, *mandamus* proceedings were instituted in the State Supreme Court to compel the Board of Review to assess these properties at their full fair value. This

[3] *Review of Reviews*, April, 1930, p. 69.

the Supreme Court refused to do, on the ground that it was well known that property in general throughout the state was assessed at substantially less than full value and had been so assessed for years.

The Downtown Property Owners on the Defensive

This action had the effect, however, of putting the downtown property owners on the defensive, particularly in view of the approaching quadrennial assessment of 1927. At the instance of Col. Gordon Strong, a large property owner and influential citizen, a conference was called by the Union League Club in December, 1926. Mr. Zangerle, the well known assessor of Cleveland, addressed the conference on the general subject of assessment. Among other things that are interesting now in retrospect, Mr. Zangerle hazarded the conjecture that residential and outlying sections in and about Chicago were more heavily assessed than the downtown sections. The conference took steps to urge upon the Board of Assessors and Board of Review the adoption of standardized methods of land valuation in the assessment of 1927, waiving for the time any efforts toward rectification of building assessments.

General Lack of Interest in the Problem

This was as far as anything had developed in the way of protest against tax conditions, up to the end of 1926; and to a considerable extent this grew out of an accidental conflict of interest between two groups, both of whom should have been working for broader objectives. So far as any general protest against the system of assessment was concerned, it simply did not exist. It is doubtful whether a majority of the people of Chicago knew that there was to be a quadrennial assessment in 1927; indeed, it is

quite certain they did not. Unbelievable as it may seem now in the light of subsequent developments, there was an utter dearth of interest in the subject and still less interest in any of the scientific aspects of the problem.

It may be of interest to research workers in this field to relate that the writer tramped the streets in the summer of 1926 in an effort to interest various groups in financing an adequate study of the local situation. Four thousand dollars, a contribution in the form of reduced charges for technical services by the *Real Estate Index* of Chicago, and two graduate fellowships made available by Northwestern University constituted the resources that could be mustered at that time for a study of the tax situation.

For this lack of appreciation of the scientific aspects of the problem the universities themselves were probably somewhat to blame. At the University of Chicago, Professor Viner, after years of able service in this field and of close contact with the problem in Illinois, was withdrawing to the more alluring fields of higher economic theory. At Northwestern University, a single elementary course in the whole field of public finance and taxation was being given. At the present time at these universities there are five professorships or instructorships in this field, thirteen courses are being given, and a half dozen research undertakings are being carried on.

But we are getting ahead of the story. At the instance of various groups, the Cook County Board of Commissioners was induced, in the fall of 1926, to create a Joint Commission on Real Estate Valuation—after Mayor Dever had been given the opportunity to appoint a similar commission. This Commission was intended to cooperate with the assessing officials in making the new assessment of 1927.

The Joint Commission on Real Estate Valuation

The Commission was actually appointed in January, 1927. It was composed of members of the Board of Assessors and Board of Review, other government officials, and the representatives of various business and civic organizations. George O. Fairweather, business manager of the University of Chicago, was chosen as chairman. John O. Rees, formerly with the New York Bureau of Municipal Research, later with the Cleveland Bureau of Municipal Research and familiar with the system of assessment developed by Mr. Zangerle in Cleveland, was brought to Chicago as director of the Commission. The official members declined to participate in the meetings or work of the commission, almost from the first, so that it became virtually a citizens' organization.

The Commission, under Mr. Fairweather's initiative, made a bold departure from the methods of most of the previous taxpayers' organizations and citizens' movements in Chicago. It mapped out as its first undertaking a comprehensive investigation of the actual facts of the situation, under the direction of the present writer, the results of which have been indicated in previous chapters

The Board of Review refused access to the assessment records, an access that was later secured through the courtesy of the Board of Assessors. Conferences were arranged with the Board of Assessors and "hearings" with the Board of Review, in the hope of securing the adoption of some improved methods for making the quadrennial assessment of 1927. In this the Commission was unsuccessful. At the suggestion of the Joint Commission, the Board of Assessors did apply to the County Board for additional funds to be used in initiating some systematic valuation work.

The County Board promptly appropriated a quarter-of-a-million dollars for the purpose, subject to certain restrictions intended to insure its use for this purpose. The Board of Assessors declined to make use of the funds.

The election of the Thompson administration in April, 1927, only strengthened the assurance of the groups in control of the tax machinery, and no assistance was desired in making the assessment of that year. The assessment was made in the old way—with even more than the usual haste and confusion on account of the increased number of properties and the delay in beginning the work of assessment. The assessors did not complete their work until the end of October, after which it appears that from 75,000 to 100,000 complaints were filed. The Board of Review heard some of them; most of them were still unheard by the first of January, when taxes had to be extended upon the assessment.

Meanwhile the survey of assessment methods and results for the quadrennium ending with 1926 had been completed, and a preliminary report of results was issued in June, 1927—after these results had been presented to the Board of Assessors, and an opportunity to present them to the Board of Review had been requested.[4] These results were included along with other materials in a preliminary report of the Joint Commission to the Board of County Commissioners in July, 1927.[5]

Wide publicity was given to these results by the daily papers and by trade journals and other publications. All of the daily papers carried vigorous editorial

[4] *The Assessment of Real Estate for Taxation in Chicago*, by Herbert D. Simpson. Institute for Economic Research, Northwestern University, Chicago.

[5] *A Study of Assessment Methods and Results in Cook County*, prepared by the Joint Commission on Real Estate Valuation, for the Board of County Commissioners of Cook County, July, 1927.

comment upon the situation, and a keen interest in the facts themselves was manifested by business and civic organizations and by citizens generally.

Under the auspices of the Joint Commission, conferences and meetings were arranged at which the facts could be presented in a plain, businesslike way, with opportunity for frank and open discussion of the conditions and of means for remedying them. In this way the results of the study were presented to the Association of Commerce, to various local chambers of commerce throughout the city, to property-holders' associations and community organizations, to the city and county real estate boards, to the Chicago Bar Association, the Building Owners' and Managers' Association, to various divisions of the League of Women Voters and the Federation of Women's Clubs, and to scores of teachers' organizations, churches, clubs, forums, and other groups. More than a hundred such meetings were held throughout the city during the following year. In this work the Chicago Federation of Civic Agencies was particularly influential in bringing the subject to the attention of its constituent organizations and in providing opportunity for presenting the facts.

The State Tax Commission

But we are getting ahead of our story again. For in August, 1927, soon after the publication of the first report of the Joint Commission already referred to, Mr. Rees had gone with this report to William H. Malone, Chairman of the State Tax Commission, had discussed the general problem with him, and had at length, with some difficulty, convinced him of the disinterestedness of the Joint Commission. Mr. Malone had asked him to confer with John C. Watson, Tax Commissioner of the Illinois Agricultural Association,

which, somewhat singlehandedly, had been fighting the farmers' tax problems down the state. This Mr. Rees did, and thereafter the Chicago situation became a factor in the general tax agitation throughout the state, Mr. Watson and the Illinois Agricultural Association giving effective support to the groups working for constructive action in Chicago.

The Joint Commission was becoming more convinced of the necessity of bringing the leverage of public opinion throughout the state and the influence of state agencies to bear upon the Chicago situation. Nothing contributed more to this conviction than the insolent disregard manifested by the Board of Review and Board of Assessors both for the law and for the groups of citizens endeavoring to secure some compliance with the law.

After careful study of the statutes, the Joint Commission had become convinced that in spite of the vagueness of many of the statutory provisions, the Tax Commission had more substantial powers over local assessment than it had assumed to exercise. In September, 1927, the Joint Commission, after a conference with Mr. Malone, asked for a formal hearing before the Tax Commission on the whole situation in Chicago. Shortly before, Mr. Rees had also conferred with Miss Margaret Haley, of the Teachers' Federation, calling attention to the possibility of intervention by the Tax Commission; and on Oct. 5th, the Teachers' Federation likewise filed with the Tax Commission a formal petition for a hearing on "the appalling conditions of assessment in Chicago."

This hearing was held on Nov. 10th. Tables and charts from the present study were presented. It was at this hearing that the *level of uniformity* and *deviation from uniformity* first secured "legal contemplation." Representatives of the Joint Commission

and of the Teachers' Federation pressed complaints against the assessment, and particularly against the failure of the Board of Assessors to publish the quadrennial assessment, as required by a statute of 1898. It appears that this statute had been a dead letter for at least twenty years. The Tax Commission was impressed by the facts disclosed and promised further consideration.

The Order for Publication of Assessments

Subsequent to this hearing, the Board of Assessors applied to the County Board for an appropriation of $60,000 for publication of the 1927 assessments. The County Board referred the request to the Joint Commission and asked the Commission to outline suggestions with regard to the form of publication. The Commission prepared a memorandum of Dec. 8th, analyzing the provisions of the statute, outlining the practice of other cities, and recommending for Cook County publication of land value maps and of individual assessments by name of owner or occupant and street address so far as possible.

This memorandum was submitted by the County Board, for an opinion as to the legality of such form of publication, to State's Attorney Crowe—from whom no opinion was secured—and to Attorney General Carlstrom, who, in an opinion of Dec. 14th, 1927, held that publication as outlined in the memorandum would be entirely in compliance with the provisions of the statute.

On Jan. 24th, 1928, the Tax Commission issued an order directing publication of assessments in substantial accordance with the form of publication outlined in the Joint Commission's memorandum. Whereupon tax officials immediately questioned the authority of the commission to issue such order, declaring that

publication of assessments would cost half a million dollars, that no funds were available for such expenditure, and that in any case the statute implied publication by legal description of properties rather than by name of owner, street number, or other form, as had been suggested by the Tax Commission. The Commission appeared to be without legal power to enforce its order.

The Reassessment Order

Later hearings were held by the Tax Commission in Chicago, at which the evidence of flagrant inequalities of assessment was gone into more fully, and complaints from various groups were heard. On May 7, 1928, the Commission issued its now famous order for reassessment of all real property in Chicago and Cook County.

Tax officials immediately questioned the legality of this order, likewise, on the ground that the assessment of 1928 would not be completed until reviewed and acted upon by the Board of Review, and that the Tax Commission could not order a *reassessment* until the *present assessment* had been completed. The Board of Review had not completed its work upon the assessment of the previous year by December 31; and with the increased number of complaints in 1928 there was little likelihood that the board would complete its work upon this assessment by December 31, 1928. Under these conditions, the same thing seemed likely to recur year after year. In that case, if the Tax Commission could not order a reassessment in any year until the Board of Review had completed its work upon the assessment of that year, it looked as if the Commission might never be in a position to order a reassessment as provided in the statutes.

On May 29, 1928, the attorney general of the state handed down an opinion, holding the Tax Commis-

sion without authority to order a reassessment until the Board of Review had completed its work. Under existing statutes, therefore, the Tax Commission again appeared to be without authority to take any effective measure for remedying conditions in Chicago.

The Legislative Joint Revenue Committee

Meanwhile, a Legislative Joint Revenue Committee had been authorized by the Legislature, before it adjourned in June, 1927, but Governor Small had taken no steps toward the appointment of the committee. The Illinois Agricultural Association and other groups had for some time been endeavoring to persuade the Governor to appoint the committee, which was to be composed of representatives from the senate and house and from business and agricultural groups outside of the Legislature. On May 16, 1928, a year after the legislation authorizing it, the Governor appointed the members of this committee, with Senator Dailey, of Peoria, as chairman. The day after its appointment the committee came to Chicago; and a week later invited the Joint Commission on Real Estate Valuation, the Teachers' Federation, and other interested groups to present facts and information bearing upon the Chicago situation.

The committee was impressed by the facts brought out at this hearing and declared itself ready to support any legislation necessary to remedy the situation. Three weeks later Governor Small issued a call for a special session of the Legislature.

The Special Session

The session convened on June 18. Representatives of the Teachers' Federation, of the Joint Commission on Real Estate Valuation, and other groups and individuals were invited to present the facts of the situa-

tion before a joint session of the senate and house. Some of the charts included in the present study were exhibited before this joint session.

The Legislature remained in session only five days, but in that time, largely under the leadership of the State Tax Commision and the Legislative Joint Revenue Committee, two important bills bearing upon the Chicago situation were passed. One of these bills authorized the State Tax Commission to order a reassessment *at any time, regardless of the stage at which the local assessing bodies might be;* the other provided for the publication of quadrennial assessments of real estate, *specifically requiring that this publication should be by name of owner and street number or other form of address.*

Publication of Assessments

The county commissioners of Cook County appropriated funds for the publication of assessments, and the publication was promptly begun. Its effects were startling indeed. From the beginning of the publication the newspapers of the city carried, almost daily, photographs of adjoining properties, frequently properties that appeared to be exactly similar, which were assessed at totally different figures. In many cases of similar homes, situated side by side, one was found to be assessed at five to ten times as much as the other. It proved to be extremely effective publicity and stirred up a vast amount of discussion and of criticism.

The Second Order for Reassessment

As a result of all of these conditions, the State Tax Commission held a conference in Chicago, on July 19, with members of the Board of Assessors, representatives of the Joint Commission, Teachers' Federation,

real estate boards and various other groups; after which the Commission issued a final and specific order for the reassessment of all real property in Chicago and Cook County.

Injunction proceedings, however, were initiated in the county court, questioning the legality of the Tax Commission's order; and County Treasurer Harding announced that he would refuse to authorize payments from the county treasury in connection with the reassessment, on the ground of certain statutory technicalities. Every possible obstacle, legal and otherwise, was put in the way of carrying out the order of the State Tax Commission. All of these were eventually surmounted; and the Board of Assessors finally retained Harry S. Cutmore, formerly of the Manufacturers Appraisal Company, as director of the work of revaluation, authorizing him to employ a staff and to organize the reassessment.

Strategy of the Movement

Thus it came about that the movement of protest culminated for the time being in a compulsory reassessment, which was not at all what the Joint Commission on Real Estate Valuation originally had in mind. This Commission had hoped only to induce the Board of Assessors and Board of Review to voluntarily adopt some systematic methods of assessment, which would remove the most flagrant inequalities of the old assessment and perhaps establish more or less permanently somewhat higher standards of assessment in Chicago. It was only the obstinate refusal of these boards to listen to any suggestion for improving assessments that forced the movement in the direction of a compulsory reassessment.

But this represents such a revolutionary overturn in the situation in the brief course of a single twelve-

months that it will be worthwhile to analyze the strategy by which it was brought about. Viewed in retrospect, this now appears extremely simple.

The Facts The fundamental element in the whole strategy consisted of facts—getting the actual facts. This portion of the work has continued throughout the entire period since the creation of the Joint Commission; but the first body of essential facts was secured by June, 1927, and was embodied in preliminary reports of the Joint Commission and of the writer. These facts were submitted, before publication, to the Board of Assessors; opportunity to present them to the Board of Review was refused. Thereafter the Joint Commission never dealt in generalities: the average rate of assessment in Chicago was no longer "around 60%," it was 31%; 250,000 properties in Chicago were assessed at less than 20%, 90,000 properties were assessed at 50 to 100%; Calumet was assessed at 10%, Rogers Park at 33½%; vacant land was assessed at 20%, commercial property at 36%; small homes were assessed at 33½%, large homes at 28%; the whole assessment was "38% off;" and that portion of taxes collected in Chicago through a process of virtual confiscation amounted to $30,000,000 annually.

It ought not to be difficult to understand why facts such as these secured a hearing, where vague generalities about inequality and discrimination had been going on indefinitely without creating a ripple of interest. But it was a new type of strategy in Chicago, where the tendency on public questions has been to rely on large-scale "publicity," propaganda, organization, influence, political agencies, and almost everything else than the plain, rock-bottom facts of the problem. The helplessness of the Board of Assessors, Board of Review, and other political organizations before this new line of attack was almost pathetic.

Getting the Facts to the Public

Next to reliance on the facts, the most striking element in the policy of the Joint Commission was the effectiveness of the means developed for getting these facts to the public. In the first place, the facts themselves were set up in the form of charts which could be presented at public meetings and which brought out the significance of the facts beyond doubt or peradventure. It will be of interest to students in this field to recall that, in discussing the range and distribution of assessments, the conventional "frequency curve," or area, which has always been used for this purpose, was at first employed. It was found that for most audiences it required elaborate explanation and left hazy results in the minds of hearers. Consequently various forms of cartographic representation were devised, including finally the "more than" curve, combined with the "level of uniformity," as used in the present study. On the first occasion when this type of chart was displayed, the writer felt obliged to explain it as carefully as he had been accustomed to explain the usual "frequency curve." After what he believed at the time to have been a particularly skillful explanation, someone in the audience remarked, "Before you explained that curve, it was perfectly clear." The *bon mot* was accepted as an authoritative "O. K." of that form of representation. Thereafter "that curve" was allowed to speak for itself; and, so far as the writer was able to detect, no one in later audiences was unable to decipher the difference between the curve showing *where the assessment was* and the straight line showing *where it ought to be*.

In the second place, the Commission adopted the policy of disclosing the facts to small gatherings, representing organizations and groups that were vitally interested in the question of assessments. This in-

cluded representatives of the real estate boards, of the building owners' and managers' associations, and of various property owners' and community organizations. Through these representatives the facts were carried in a particularly effective way to the members of the various groups.

In the third place, the Joint Commission arranged meetings throughout every quarter of the city, at which the facts were presented. These were not mass meetings, however, but meetings of particular organizations or groups, with audiences varying from a dozen souls to two hundred. At these meetings the speakers were members of the Commission or others associated directly with the work of the Commission. Their subject invariably dealt with the simple facts of the situation. Most of them were amateurs at public speaking; many of them had difficulty in making themselves heard by an audience of more than two hundred; and none of them certainly could lay claim to any oratorical capacity. The writer cannot recall at the moment a single such meeting at which the Commission was represented by a political orator or a professional speaker of any kind. But the Commission adopted the policy of putting itself at the service of any group, large or small, "high-brow" or "low-brow," radical or conservative, that wanted to know anything about taxes. The result was a kind of "university extension" course in taxation of a kind that had not been "offered" in Chicago before.

And a final agency in getting the facts to the public was the press. The daily papers, trade journals, and local neighborhood publications gave generous space to the materials, including even the tabulations and charts, carried accounts of the meetings, speakers and addresses, and made vigorous editorial comment from time to time upon the situation.

Crystallizing Sentiment

After getting the facts and getting the facts to the public, the third element in the policy of the Commission was a resolute refusal to adopt beforehand any specific program of tax legislation or tax policies. Instead, the Commission engaged more or less everybody in Chicago, who could be induced to participate, in a continuous series of conferences, discussion, and comparison of ideas, with a view to building up the elements of a tax program only so far and so rapidly as the ideas of Chicago people appeared to have crystallized with reference to the problems involved. It was a kind of process of distillation—pouring a body of pungent facts into the consciousness of 3,000,000 people, giving them time to ferment, and then distilling the product, through the long, winding "worm" of conference and discussion, in the form of proposed legislation and policies. It is a slow process for developing a legislative "program;" but the revolutionary change that took place in the attitude of Chicago people toward constructive tax policies within the year-and-a-half following the creation of the Joint Commission was evidence of the effectiveness of this process.

Focusing Public Opinion upon Government

The fourth element in the strategy of the Commission consisted in bringing the pressure of public opinion, as such opinion developed, to bear upon the governmental departments concerned. These included at different times the Board of Assessors, the Board of Review, the County Board, the State Tax Commission, the Joint Legislative Revenue Committee, the Governor, and the Legislature. This task fell upon the chairman of the Commission, Mr. Fairweather, who, in the face of apparent impossibility, pressed the position of the Commission courageously, persistently and, it must be said, almost single-handedly. But this last process

was the spearhead that gave thrust to the work of the Commission.

Its results have continued much beyond the point that we have reached in our narrative. We have paused here only to analyze what seem to be some of the essential elements in the strategy of the movement up to the point of the reassessment. And it is not meant to identify this strategy exclusively with the Joint Commission. Many other organizations and groups have participated in the movement at various points, as has been indicated in the preceding narrative; and in some cases, their participation has been indispensable. But the Joint Commission is the one organization that has been continuously in the field and has been working actively and systematically for far-reaching changes in tax methods. Its type of strategy is therefore particularly significant in the present movements; and in a nut-shell, this strategy has consisted merely in getting the facts of the problem, getting these facts to the public, crystallizing the results in the form of definite public opinion, and focusing this public opinion upon the governmental agencies concerned. After all, this is about the sum and substance of statesmanship in a democracy.

PART II

TAX RELIEF

CHAPTER X

THE REASSESSMENT

AFTER issuing its final order for reassessment on July 19, the Tax Commission proceeded to formulate certain general principles and methods to be followed in making the reassessment. These were embodied in an order issued on August 2 and known thereafter as "Rule Fourteen." The elementary character of these provisions is itself a humiliating reflection upon the previous procedure in Cook County.

"*Rule Fourteen*"

Rule Fourteen[1] provided that the Board of Assessors should maintain "suitable record sheets or cards as a permanent public record;" should establish standard unit-foot land values; that these unit-foot values should be "recorded on land value maps," which should be available for public inspection; that the assessors should establish standard depth and corner influence curves; and with regard to improvements, that the assessors should establish a schedule "classifying various types of buildings or structures," establish schedules of square foot or cubic foot costs for each type, and should cause "building, and other improvements on each lot or parcel of land to be measured and described to a reasonable extent." Outside of Chicago, therefore, Rule Fourteen would have been considered only the most elementary assessment primer.

[1] *Tenth Annual Report of the Tax Commission of Illinois*, pp. 177–80.

The Reappraisal Staff

Under the order for reassessment and the provisions of Rule Fourteen the Board of Assessors engaged Mr. Cutmore, as Director of Revaluation; and Mr. Cutmore undertook the formidable task of organizing a staff, formulating methods, and directing the operations involved in a valuation of the million and a quarter pieces of real estate in Cook County.

The staff was collected under numerous difficulties. One of these was the unwillingness of politicians to relinquish the opportunities for patronage afforded by the sudden creation of such a large number of jobs. Another was the low range of salaries permitted under the existing statutes. Under the Revenue Act of 1898, deputy assessors were limited to $7.00 a day and clerks to $10.00. Mr. Cutmore himself could not hope to earn more than $7.00 a day—unless he could classify as a clerk, in which case he might draw $10.00. Mr. Cutmore and his staff worried along under various extra-legal arrangements or assurances until April 19, 1929, when the Legislature revised this statute, providing that in counties of 500,000 population the salaries of deputy assessors should be determined by the County Board.

The staff was organized in two general divisions, one of Land Valuation and one of Building Valuation.

Land Valuation

For purposes of land valuation, the county was divided into districts, and maps prepared for each district. There were 44 such districts in the city of Chicago. Farm lands and industrial sites were valued either on the square foot or acre basis, according to their size. City and suburban lots were valued on the "standard unit-foot" basis prescribed by the Tax Commission. The standard unit for residential lots

and for business lots outside of the central business district was a strip of land one foot wide and 125 feet deep. A large portion of Chicago lots are laid out with this depth. In the central business district, a depth of 100 feet was found better adapted to actual conditions.

In each district, committees of real estate men cooperated in establishing tentative unit values. These tentative values were then submitted to a "Correlation Committee," which made adjustments between adjoining districts. These values were next submitted to the Board of Assessors and, after approval or modification by them, were published in full in the newspapers as "tentative unit values."

Public meetings were held in various sections of the city and county, and property owners were urged to offer their comments and criticisms upon these preliminary valuations. The results of these criticisms, suggestions, and of further investigation were then embodied in corrected maps and presented to the Board of Assessors. After official approval by that Board, these valuations became the final "unit values." Standard "depth curves" and formulae for corner influence, alley influence, and other factors were then worked out, and these formulae were applied by a clerical staff in computing the actual value of individual parcels.

Building Valuation

For the purpose of building valuation, a manual showing the basic reproduction cost of typical buildings was prepared. In ordinary buildings of three stories or less, the square foot reproduction cost, in large buildings the cubic foot reproduction cost, were taken as the standard unit for the type described, with due allowance for depreciation because of age and condition.

Photographs of several thousand buildings were obtained and submitted to the scrutiny of architects and builders familiar with structural problems. These men selected some three hundred buildings, each of which was typical of a class; and photographs of these buildings were reproduced in the manual.

A careful analysis was then made of each of the typical buildings selected. Each building was measured and the costs of the several items entering into its construction were specifically set out. From the total of these costs, the square foot or the cubic foot unit price was obtained. Accompanying each picture in the manual was a short description of the construction and structural features of the building shown.

The square foot and cubic foot values thus derived represented "reproduction value new," from which were to be deducted depreciation and obsolescence. A depreciation schedule for "physical deterioration" was worked out, based on a rate of approximately 2% per year for the first five years and 1½% per year on a diminishing base for the next 35 years. This schedule left a building, when 40 years old, still "53% good," after which physical condition alone was to govern the depreciation allowance. In addition to physical depreciation, allowance was made for want of maintainance, to an amount of 5 to 15%, and for obsolescence, or "lack of utility," to an amount ranging from 0 to 30%.

Record Cards

The results of both land and building valuations were recorded on a "Permanent Public Record Card," in accordance with the Tax Commission's order, an example of which is reproduced on the opposite page. On this card are shown the section, township, and range number, the street address, and index figures for

VOL. 10 PAGE 22 LINE 32 PLAT

ATLAS VOL. 16 PAGE 5

Sec.	Town	Range	Lot	Sub-Lot	Lot	Block
24	39	14			40	
					41	1

Wetherbee & Gross
Sub of N½ NW ¼
(Ex. E 100 ft thereof)
W 12 ft.

TOWN — COOK COUNTY, ILLINOIS | SEC. 24-39-14 INDEX NO. 201 10

STREET ADDRESS: 1246 W. FARE PL.

LOT SIZE: 30' x 125'

VACANT ____ IMPROVEMENTS ____ EXEMPT

LAND VALUATION	2250 00			
BUILDING VALUATION	3779 00			
TOTAL LAND AND BUILDINGS	6029 00			

DESCRIPTION

USE	CONST.	FNDTNS.	EXT. WALLS	MISC.
RESIDENCE	WOOD FRAME	STONE	WOOD SIDING	P.G. STORE FRONT
DOUBLE HOUSE	STEEL FRAME	CONCRETE ✓	BRICK ✓	SPRINKLER
✓ BUNGALOW	REINF. CONCRETE	BRICK	STONE	PASS. ELEV.
2-FLAT	MILL	PILES	STUCCO	FRT. ELEV.
3-FLAT	✓ BRICK	PIERS	TERRA COTTA	HAND ELEV.
APARTMENT	TILE	CAISSONS	METAL	FIRE ESCAPES
STORE				REFRIGERATORS
STORE & FLAT				INDOOR BEDS
OFFICE BLDG.	FLOORS	ROOF	ROOFING	VAC. CLEAN. SYS.
HOTEL	✓ WOOD JOISTS	GABLE	SHINGLE ✓	SKYLIGHTS
THEATRE	MILL	✓ HIP	TAR & GRAVEL	CABINETS
FACTORY	STEEL BEAMS	FLAT	READY ROOFING	FIRE PLACES
GARAGE	REINF. CONC.	MANSARD	✓ COMPOSITION	INCINERATORS
GAS STATION	REINF. TILE	GAMBREL	SLATE	OIL BURNER
	DIRT		TILE	

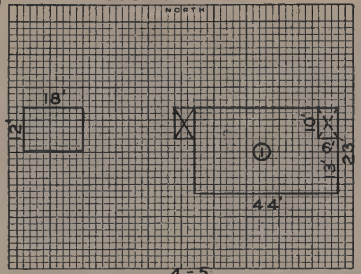
EXT. TRIM	BASEMENT	HEATING	PLUMBING	
✓ PLAIN	NONE	STOVES	NONE	5 ROOMS
ORNAMENTAL	PART	PIPELESS	FIXTURES	APTS.
WOOD	✓ FULL	HOT AIR	TOILET	RMS.-APT.
STONE	DIRT FLOOR	STEAM	BATHROOMS	
TERRA COTTA	✓ CEMENT FLOOR	✓ HOT WATER	✓ TILE FLOOR	FIN. ATTIC RMS.
METAL	FINISHED	VAPOR	TILE WALLS	
				FIN. BASE. RMS.

FLOORING	INT. FIN.	LIGHTING	PORCHES	
PINE	✓ PLASTER	ELECTRIC ✓	X FRONT ✓	
✓ HARDWOOD	✓ DECORATED	GAS	X SIDE	DATE COMPL.
CEMENT	PINE	LAMPS	X REAR ✓	10 AGE 84
TILE	✓ HARDWOOD		X SLEEPING	REMODELED
MARBLE	METAL			
	MARBLE & TILE			

SPECIAL

BUILDING APPRAISAL

NORTH



4-5

BUILDING DIMENSIONS

SIZES	NO. STYS	Height	CUBE OR AREA
23.38	1		874
6.13	1		78

SQUARE FEET	UNIT PRICE	NEW COST	CONDITION GOOD	FAIR	BAD	% COND.
952	4 70	4474 00	4			80

CUBIC CONTENTS ____ LACK OF UTILITY ____ OR OBSOLESCENCE ____

GARAGE	TYPE	FLOOR	ROOF	SIZE	AREA	UNIT PRICE	NEW COST	% COND.
1-CAR	F	C	H	12'X18'		250		80

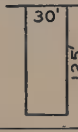
$3579 00
$ 200 00
$
$
$
$
$
$
$
$

LAND VALUATION

ZONED FOR RESIDENCE VOL. 10

ACREAGE	LOTS
LEVEL	✓ LEVEL
LOW	HIGH
FARM	LOW
WOODED	ROCKY
SCRUB	SWAMPY
SWAMP	

STREET	IMPRVS.
CONCRETE	SIDEWALK
ASPHALT	CURB
BRICK	WATER
MACADAM	SEWER
DIRT	GAS



FRONT AND DEPTH	UNIT PRICE	DEPTH FACTOR	CORNER FACTOR	FRONT FOOT PRICE	VALUE
30'X125'	75 00	1.00			2250 00

ACRES @

ENHANCING INFLUENCE ____ %
DETRACTING INFLUENCE ____

TOTAL LAND 2250 00

BASE 4 50
HOT-WATER +20
4 70

TOTAL BLDGS. $3779 00

R. E. Form 1 250M 11-28

REDUCED FROM ACTUAL SIZE

locating the property. A detailed description of the building occupies the left of the card. Sketch of the ground plan, with building dimensions summarized and extended, appears at the right. The square or cubic footage, depending on the type of structure, the unit price, and reproduction cost are listed below the sketch, with detracting factors of age and condition. Details of the land valuation, including the dimensions, unit foot price, depth factor, and frontage price, together with the value of the land, occupy the bottom of the card, and the combined value of both land and buildings is extended at the top.

The "Level of Uniformity"

The completion of the various processes involved in arriving at a full valuation of land and improvements marked the completion of the work of the Revaluation Staff. The results constituted an *appraisal* of real property in Cook County, but did not become a legal assessment for purposes of taxation until approved by the Board of Assessors, reviewed by the Board of Review, and finally accepted by the Tax Commission. The first problem in this process of converting an appraisal into a legal assessment was that of determining *what proportion of appraised value should be taken for purposes of legal assessment.*

This problem, while involving a considerable amount of real difficulty, precipitated an unnecessary amount of discussion and confusion and some maneuvering for political effect. It did have legal and scientific aspects of real interest to students of taxation.

In the first place, the statutes require assessment at full actual value, and there were radical reformers who advocated carrying out the statute to the letter. But with tax rates already fixed at 5 and 6% (on the basis

of customary assessments at 30 to 40% of full value), a sudden assessment at full value would have created havoc, and this was generally recognized. On the question what *ought* to be the rate of assessment, there was extreme difference of opinion. In the early meetings of the Joint Commission, before the assessment of 1927, and before any reassessment was contemplated, the same question had come up with reference to the approaching quadrennial assessment of 1927. It was frequently suggested at that time that some study be made of the amount of public expenditure in other cities and the rate of increase of such expenditures in relation to increase of population, with a view to determining what would be a "normal" amount of expenditure and a "normal" increase in expenditure for Chicago, and consequently what rate of assessment of property would be necessary to provide for that amount of expenditure.

To students of public finance, the vagary of any such statistical control of public expenditure is sufficiently patent; and from the first meetings of the Joint Commission the writer had argued for sharply dissociating the policy of the Commission from any question of either raising or lowering taxes and for limiting its objective solely to the problem of equalization. After some hesitation and considerable delay that policy was eventually adopted.

In accordance with this policy, the *average* rate of actual assessment in Chicago was then determined; and the Commission, without concerning itself with the rightness or wrongness of this level, concentrated its efforts on securing an assessment of all property at this level. Obviously the *average actual rate* of assessment is the only rate at which all properties can be assessed equally and still not affect in any way the total assessment or the total revenue yielded.

It was in line with this policy that emphasis was placed on *deviation from the average* in the tables and charts in the earlier portion of this study; and this was the genesis of our phrase, "level of uniformity," used so persistently in connection with that average.

When the order for reassessment was under consideration and after it had been issued, this question was again precipitated. The statutes require full value, but the constitution requires uniformity. Common sense and the courts have agreed that the intent of both is equality in tax burdens, and that the substance of equality is therefore more important than the letter of the statute. The general rate of assessment throughout the state was assumed at the time to be in the neighborhood of 60% of full value, though later proved to be actually from 35 to 40%.

There were two more or less interested points of view: one, held by those who wished larger revenues, especially for the schools, and who believed that any reassessment must necessarily result in increased revenues through raising the assessments of underassessed properties; the other, held particularly by the larger downtown property owners, who had suffered from discriminating treatment and who were anxious to see that any reassessment at least did not result in increased taxes. The Tax Commission was repeatedly urged to fix the rate at which property should be assessed, and considerable pressure was brought to bear to induce the Commission to take this course, a course which the Commission wisely avoided.

A third view, in which the writer joined, urged the policy previously referred to; namely, that the purpose of the reassessment should be neither to raise nor lower taxes but to equalize them; that therefore no arbitrary rate should be fixed either by the Tax Com-

mission or the Board of Assessors; but that a full value appraisal of all property should be made and that such percentage of this value be taken as would result in the same total revenue that would have been yielded by the original 1927 assessment.

Some groups, including particularly representatives of the legal profession, argued that the Board of Assessors and the Tax Commission were without authority to fix any "level" of assessment other than the statutory full value, and that to do so might invalidate the assessment. But against this view it was urged that the Board of Assessors would not be *fixing* any level but merely *leaving* the level where it already was, and bringing all assessments up or down, as the case might be, to that level. The courts had not held this average rate of assessment illegal before; and a mere effort on the part of the assessors to see that all properties were assessed somewhere near this rate could hardly make it any more illegal. This position was strengthened when subsequent investigation indicated that the average rate of assessment throughout the entire state was approximately 35% of sales value, compared with 36% for Chicago; so that it was apparent that equalization at the existing level in Chicago would be closely in line with the general level throughout the state.

A more difficult problem was precipitated by the difference in existing rates of assessment in Chicago and in the outlying cities and towns of Cook County, these "outlying" towns including Evanston with a population of 63,000, Oak Park with 64,000, and Cicero with 66,000. Assessments in these outlying districts were not only quite generally lower than in Chicago, as has been indicated in previous chapters, but showed the widest variations even among themselves.

There was some inclination among the groups supporting the reassessment to work for an equaliza-

tion within Chicago alone and to keep hands off the situation in the County. But the adoption of such a course by the Board of Assessors would have exposed them to the charge of deliberate discrimination as between Chicago and the rest of the County, and would still have left untouched the whole problem of equalization among the cities and districts outside of Chicago. The Board of Assessors was virtually compelled, therefore, to adopt a policy of a uniform rate of equalization for the whole county. This would necessarily have the effect of lowering assessments somewhat in Chicago and of raising them throughout most of the remainder of the county.

For some time, however, the Board of Assessors endeavored to evade responsibility for fixing this rate by insisting that it was the duty of the Tax Commission, having ordered the reassessment, to fix the rate of equalization; and large taxpayers, fearful of an unduly high rate, added to the pressure upon the Chairman of the Commission to induce him to announce beforehand what the level of equalization should be. The writer participated somewhat in this discussion, urging upon the Chairman of the Tax Commission, the Joint Commission, and the Board of Assessors the policy of undertaking no responsibility for either raising or lowering taxes, but of waiting until the reappraisal was completed and then taking whatever percentage of that appraisal was necessary in order to produce the same total assessment as the original 1927 assessment, plus an allowance for new construction in the interim.

The action finally taken was based in a general way upon this policy, but was modified by some elements of conjecture and some movement in the direction of safety. An estimate early in 1929 indicated that the total appraisal of real estate in the county would be

approximately $9,375,000,000. The original 1927 assessment had totalled $3,560,126,501, which was therefore approximately 38% of the estimated reappraisal valuation; the writer's figure for the average rate of assessment in 1927, it will be recalled, was 36%; the Board of Assessors adopted 37% as the level for the reassessment.

This was moving in the direction of safety, that is, of *reducing* the total tax levies, in three ways. In the first place, the writer's figure, 36%, was a percentage of *sales value*, not of appraisal. Since an appraisal can scarcely run, at most, more than 90% of actual sales prices, 36% of sales value would mean at least 40% of appraised values; and this the writer pointed out in conference with the Board of Assessors.

In the second place, the estimate of total appraised valuation above, made as of April 1, 1928, includes new construction for the preceding year, which is estimated to have been approximately $291,876,048.[2] If this amount is deducted, the ratio of the 1927 assessment to the appraised valuation for 1928 becomes 39%. In other words, the 37% rate eliminated the amount of new construction between April, 1927, and April, 1928, upon which it would seem that the local governments had legitimate ground to calculate.

In the third place, if the Board of Assessors set a rate of 37%, it was certain that the final rate would prove to be still less, because the subsequent processes of revision and adjustment, including review by the Board of Review, must inevitably have the effect of reducing the total valuations.

Politically, of course, it was the wiser course to err on the side of *reducing* taxes than otherwise. In any

[2] U. S. Dept. of Labor, *Building Permits in the Principal Cities of the United States in 1928*. Figures for tax-exempt construction have been deducted.

case, the 37% level was adopted; and thereafter a clerical staff went through the recorded valuations for all properties and took 37% of those valuations as the legal assessment for taxation. The effect upon total assessment and revenue will be discussed later.

The Public Relations Department

In view of the fact that valuations had been made in accordance with systematic methods and that a genuine equalization had been attempted at the level of 37%, it was now possible—apparently for the first time within the memory of present occupants of the County Building—to explain these processes to taxpayers. For this purpose a Department of Public Relations was established in the offices of the Board of Assessors. As the books for each district were completed, public notice to that effect was given, and three weeks were allowed for inquiries by property owners, for informal discussion of their valuations, and for formal complaints on the part of any who wished to file them. In these inquiries the permanent record cards described above (page 147), with the complete information used in arriving at valuations, were open to the inspection of the taxpayer.

Provision was made, likewise, by which property owners could receive their valuations by mail, on inquiries addressed to the Board of Assessors. Up to January 14, 1930, the Public Relations Department reported that 72,245 valuations had been given to property owners by mail and 73,108 discussed personally "over the counter," making a total of 145,353 valuations secured by taxpayers in this informal way. Out of 9177 complaints from the city of Chicago up to the same date, January 14, 1930, 8695 had been adjusted through this department, only 482 taxpayers

persisting in formal complaint to the Board of Assessors.

The reassessment staff had completed the bulk of its work before the end of the year 1929. Subsequent operations in the process of hearings and approval by the Board of Assessors, obstructionist tactics on the part of assessors in the country towns, and situations in some of the country towns that did demand reconsideration by the Revaluation Staff, prolonged the final completion of the assessment at the hands of the Board of Assessors. But all books for the city of Chicago had been turned over to the Board of Review by December 30, 1929; and of a total of 30 country towns, the books for 21 of these had been turned over to the Board of Review by February 24, 1930.

Review by the Board of Review

A special provision, applicable to the reassessment, had been enacted by the Legislature in an act of May 29, 1929, authorizing the Board of Review to proceed with its hearings and revision district by district, as the books for these districts were turned over by the Board of Assessors. The previous custom had been to wait for the completion of the entire county before proceeding with hearings and review.

Meanwhile the violent and bitter denunciations of the whole reassessment by the Board of Review had made it apparent that if the reassessment were to be left to the mercies of that Board in the process of review and revision, there would be little left of it. One member of the Board of Review had made a campaign for reelection in 1928 on the declaration of deliberate discrimination in assessment and of his intention to continue such discrimination.[3]

[3] After quoting from the Tax Commission's *Rule Fourteen* the clause (which, in fact, was only quoted from the State Constitution) to the effect that everyone

As a matter of fact, and quite contrary to the "plan" advertised, Mr. Litsinger and the Board of Review had been assessing small homes, not at 20%, but at 33½%; and large homes not at 30%, but at 28%.[4] With that we are not concerned here; but this and similarly violent pronouncements by the Board of Review made it obvious that the reassessment was not likely to receive judicial treatment at their hands.

"Rule Fifteen"

In view of this situation, the Tax Commission was obliged to exercise what vigilance it could and issued an order governing the process of review, known as Rule Fifteen.[5] This order provided merely that revision of individual assessments should be made only on written complaint of the taxpayer or his agent; that hearings and decisions should be had at public meetings of the Board (instead of separate "hearings"

should pay taxes in proportion to the value of his, her, or its property, Mr. Litsinger's published advertisement refers to this as "the Malone plan," and continues:

"I have studied this provision but cannot understand its meaning. Do such words mean that the Assessors shall equalize and tax the small home in the same proportion and on the same basis as property in the downtown district?"

* * * * * * * * *

"As a substitute for the Malone plan I offer the Litsinger Plan to make assessments on the following basis:

All homes valued under $10,000 shall be assessed at 20% of sale value.

All homes or apartments valued from $10,000 to $50,000 shall be assessed at 25% of sale value.

All homes or apartments valued from $50,000 to $100,000 shall be assessed at 30% of sale value.

All homes or apartments valued over $100,000 shall be assessed at 35% of sale value.

All business property over $100,000 shall be assessed at 40% of sale value.

All property not included to be classified on a similar equitable basis.

* * * * * * * * *

"Business property would and should carry twice the burden of residential property. I would go further and say that a married man who buys a home should be exempt from taxation for five years and where he only makes part payments he should only pay on his equity."

Chicago *Daily News*, October 22, 1928.

[4] See page 77 above.

[5] *Tenth Annual Report of the Tax Commission of Illinois*, pp. 188–92.

by individual members of the Board of Review, as in the past); that minutes of these meetings should be kept, recording any changes in assessments and the reasons therefore, and that these minutes should constitute a public record open to public inspection; that all changes in assessment should be so entered upon the permanent record card, or a photostatic copy thereof, as to show the changes, "without erasure or obstruction of the existing words or figures on the card;" and that three copies of any decision involving a change of assessment, with the reasons therefore, should be made by the clerk of the Board of Review, one to be retained by the Board of Review, one to be returned to the Board of Assessors, and one to be filed with the State Tax Commission. The necessity for setting forth such elementary provisions for review was a sufficient reflection upon previous methods of procedure; and the violent opposition of the Board itself appeared to confirm the need for them.

In fact, the Board of Review at first took a position of outright refusal to comply with the order of the Tax Commission, and later of persistent evasion of the substance and spirit of the order. This was followed by systematic procrastination and obstructionist tactics.

The Tax Commission had an audit made of a number of the books, as they were slowly turned over by the Board of Review, discovering a large number of errors, a considerable number of unwarranted reductions, and some cases of questionable practice by employees of the Board. This is not the place to go into these in detail.

The Tax Commission, the Joint Commission on Real Estate Valuation, the Citizens' Committee, after its formation in January, 1930, the newspapers and press of the city generally, the governor, and numerous

other organizations and groups brought pressure to have the review completed. Political considerations made it undesirable, from the standpoint of the Board of Review and the city administration, to have the tax bills come out before the primaries of April, 1930. There were recurring suggestions that, after all, it would be necessary to throw out the reassessment and go back to the original assessment of 1927. Up to the last minute apparently the political organization still hoped something might transpire that would enable them to annul or discredit the reassessment.

No such circumstance having developed, and the city meanwhile having been brought to the brink of bankruptcy by the two-year suspension of tax collections, the Board of Review finally turned over the remaining books, and the long-drawn struggle over the assessment of 1928 came to an end on April 23, 1930.

CHAPTER XI

RESULTS OF THE REASSESSMENT

PEOPLE in Chicago will be engaged for the next few months and probably for the next few years in discussing the results of the reassessment, *pro* and *con*. In the present chapter we shall attempt to measure its immediate results, from the standpoint of equalization of assessments, and then to appraise some of its indirect results.

Throughout the chapter, unless indicated otherwise, we shall be speaking of the assessment as it left the hands of the Board of Assessors, since this is the *reassessment* that we are measuring. Substantial reductions in individual assessments were later made by the Board of Review, and a few conspicuous increases in Loop properties were made. But the audit inaugurated by the Tax Commission and the unrelenting scrutiny maintained by the Joint Commission, the press, and other groups prevented any wholesale manipulation by the Board of Review. It is believed, therefore, that while the total valuation was reduced, the general character of the assessment has not been materially altered by the work of the Board of Review. In any case, it is the revaluation as made by the Revaluation Staff, under the direction of the Board of Assessors, that we are interested in here; and in all of the measurements throughout the present chapter, it is this valuation that is referred to. Where, however, we have occasion to speak of *total* valuations for the city, county and other units, we shall necessarily be

speaking of the final assessment as completed by the Board of Review and turned over to the County Clerk, and this will be indicated.

I. *Direct Results*

Total Valuation

The total assessed valuation of real property subject to assessment in Cook County, under the reassessment, is reported at $3,336,174,128. The 1927 total had been $3,560,126,501, so that the reassessment resulted in a reduction of $223,952,373.

The total assessed valuation for the city of Chicago was reduced from $3,280,777,828 in 1927 to $2,661,949,634 for 1928, a net reduction of $618,828,194.

Territorial Shifts

More important than any of the totals were the radical readjustments of valuations between city and county, among districts within the city, and among localities in the county outside of Chicago. The revolutionary upheaval of levels between Chicago and the rest of the County will be suggested by the following figures:

	1927 Assessment	Reassessment
Chicago	$3,280,777,828	$2,661,949,634
Remainder of County	279,348,673	674,224,494
Total	$3,560,126,501	$3,336,174,128

This readjustment was necessitated by the low levels of assessment prevailing in the county towns. No accurate studies had been made to determine the actual rates of assessment in the various towns, but it was a matter of general knowledge that these rates were quite generally lower than in Chicago and that some of them were ridiculously low. The reappraisal confirmed this general belief and brought to light

conditions even more startling than had been supposed. As measured by the full value appraisal of the Reassessment Staff, the previous assessment (1927) had been at an average rate of approximately 25% in Evanston, 22% in Oak Park, 19% in Calumet, 14% in Cicero, 13% in Niles, and 6% in Wheeling. Regardless of the accuracy of these particular figures, there is no question that many of the country towns had for years been evading their fair portion of State, County, and Sanitary District taxes.

Within the city the most radical readjustment was a shift from the downtown section to the near Northside and Rogers Park, where land values had been appreciating, and to Calumet and the southwestern districts, where extreme under-assessment had prevailed for years. The portion of the downtown district which received the most conspicuous relief was, however, not the Loop, but the section south of the Loop, embracing areas of previous high assessment, areas adversely affected by the northward drift of business and of property values, and including a considerable portion of the Negro district.

In the county outside of Chicago the most conspicuous readjustment was the restoration of Cicero and Calumet to the tax rolls for purposes of state and county taxes.

General Level of Assessment

On the basis of the 4084 properties included in this portion of our study, the average rate of assessment in Chicago under the reassessment was 28% (27.8%) of sales value, compared with an average rate of 31.3% in 1926 and 35.9% in the 1927 assessment. This figure has occasioned some surprise in Chicago, but independent evidence, entirely aside from our own data, confirms the accuracy of the result beyond ques-

tion. Indeed, the decrease in the *total assessed valuation* for Chicago indicates an almost identical result, as a simple calculation will show.

The reported reduction, as indicated above, was $618,828,194. But the actual reduction was greater than this by the amount of new construction since the previous assessment. This is estimated to have been approximately $334,055,942,[1] which, if assessed somewhere around 30%, would represent an assessed valuation of approximately $100,217,000.

Combining the two elements:

Reported reduction	$618,828,194
Assessed valuation assignable to new construction	$100,217,000
Total reduction	$719,045,194

This is a reduction of 22% from the 1927 assessment. The average rate of assessment in 1927 had been 35.9%. A reduction of 22% would bring this down to exactly 28.0%, compared with the 27.8% indicated by our sales data!

If there had been a deflation of values between April 1, 1927 and April 1, 1928, it would still be possible to urge that aggregate values for 1927 and 1928 were not on a comparable basis. No such deflation had occurred at that time. The stock market collapse and associated events were still a year and a half in the future. Real estate values in some outlying subdivisions were beginning to stagnate; but within the city of Chicago the annual Olcott *Blue Book* estimated a continued appreciation of land values to the amount of $100,000,000, or 3%, for the year 1928.[2]

On any basis of measurement it is apparent, therefore, that the general level of the reassessment will approximate closely the 28% indicated by our sales

[1] U. S. Dept. of Labor, *Building Permits in the Principal Cities of the United States in 1927*. Tax-exempt construction deducted.

[2] Olcott's *Land Values Blue Book of Chicago*, 1928, p. XXXIII.

data.[3] And this result confirms the suggestion offered by the writer and others, in connection with the fixing of the equalization factor, that 37% or 40% of *appraised valuation* would not be nearly equivalent to 35% of *sales values*,[4] the approximate level of assessment for the state as a whole.

With the wisdom of establishing a higher or lower rate of assessment, from the standpoint of tax policy, we are not here concerned. In view of the hardships already suffered by taxpayers and the unscrupulous management of public funds by various departments of local government, there was much to be said in favor of the lower rate. The fact that any county-wide equalization inevitably involved violent upward readjustments afforded further specific reason for making the level of this adjustment as low as possible.

But the reduction of $618,828,194 in the assessed valuation for Chicago had unfortunate effects upon the budgets and the borrowing of local governments, whose financial plans had been based on the assumption that the 1928 assessment would yield at least some increase in total valuation over that of the previous year. It likewise has precipitated the question of equalization between Cook County and the rest of the state. Previous studies had indicated for ten counties,

[3] An independent investigation made under the direction of Mr. R. C. Beckett, formerly Tax Commissioner of the Mobile and Ohio Railroad, and Mr. B. W. Rose has just come to the writer's notice. An analysis of 1145 transfers within the city of Chicago and 700 transfers in Cook County outside of Chicago, made in 1928, yields the following remarkable result:

	Ratio of Assessment to Sale Prices
City of Chicago	28.4%
Cook County outside of Chicago	27.65%
Combined ratio, unweighted	28.02%

The figures afford striking testimony to the degree with which the reassessment has equalized assessments as between the City of Chicago and the County outside of Chicago. Mimeographed copy, *A Study of the 1928 Assessment Ratio for Cook County*.

[4] *Memorandum* of the writer to the Board of Assessors, June 10, 1929.

believed to be typical of the state outside of Chicago, quadrennial assessments in 1927 at an average rate of 34% of sales value.[5] In the absence of radical changes throughout the state, which are not likely to be made until the next quadrennial assessment in 1931, it appears to be a fair inference that the reassessment has placed Cook County somewhat below the general level of assessments throughout the state.

Aside from its immediate purpose in the equalization of assessments, the reappraisal affords some food for thought with regard to the real estate wealth of the city and county.

The "full value" appraisal of real estate in Chicago, before application of the 37% factor or other special adjustments, was $7,495,493,760. Our own comparison of this appraised value with the sales prices of 4084 properties indicates that the appraisal values averaged 75% of actual sales prices. Supplementary evidence, including inspection of some of these properties in company with members of the reassessment staff, confirms the general accuracy of this result and warrants the inference that the appraised valuations represent approximately 75 to 80% of sales values. This means that the actual value of taxable real estate in Chicago, as of April, 1928, was approximately $9,995,000,000 and must now have passed the ten billion dollar mark. On the basis of present population estimates, this is approximately $3,000 worth of real estate per capita, or $13,325 per family, a reassuring thought in the midst of tax problems and other difficulties. This, it will be understood, includes only taxable real estate subject to local assessment.

Similar computation would indicate real estate holdings of $4125 per capita, or $18,150 per family, in Evanston; and $3650 per capita, or $16,000 per family

[5] *The Tax Situation in Illinois*, Chapter III.

in Oak Park. For the entire county, outside of Chicago, it would indicate real estate to the value of $3575 per capita, or $15,700 per family; and for the whole of Cook County, including Chicago, $3050 per capita, or $13,420 per family.

Range of Assessments

In Table 20, the general range of assessments is shown as in similar tabulations for previous assessments (pp. 28, 43, and 57). There is still a fairly wide

TABLE 20

RANGE OF ASSESSMENT
REASSESSMENT OF 1928

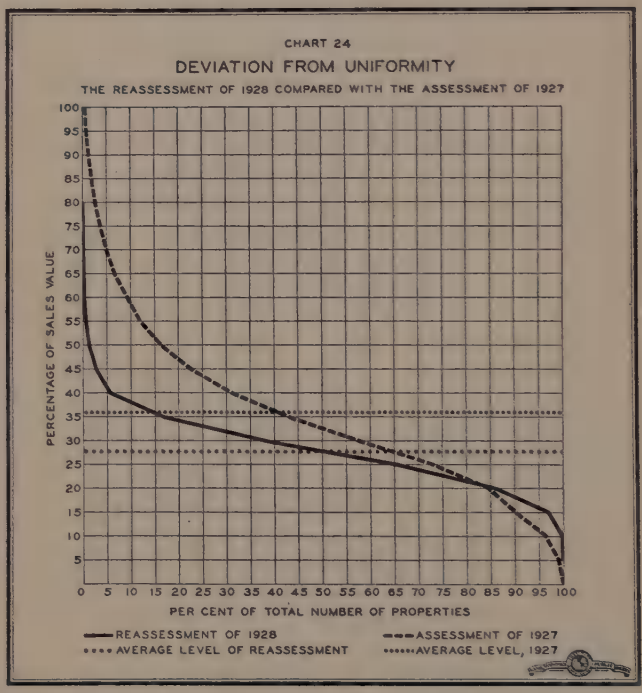
Percentage of Sales Value	Number of Properties	Percent of Total Number of Properties	Value of Property	Percent of Total Value of Properties
0–5	0	— %	$ —	—
6–10	9	.2	3,034,100	2.0
11–15	151	3.7	8,608,000	5.6
16–20	498	12.2	16,995,800	11.1
21–25	889	21.8	34,400,800	22.6
26–30	1130	27.6	36,379,100	23.9
31–35	767	18.8	29,920,900	19.6
36–40	397	9.7	12,839,500	8.4
41–45	154	3.8	5,525,800	3.6
46–50	57	1.4	3,003,300	2.0
51–55	17	.43	469,500	.34
56–60	10	.25	1,194,000	.80
61–65	0	—	—	—
66–70	2	.05	38,500	.03
71–75	0	—	—	—
76–80	3	.07	41,000	.03
81–85	0	—	—	—
86–90	0	—	—	—
91–95	0	—	—	—
96–100	0	—	—	—
Total	4084	100.0	$152,450,300	100.00

"spread," but a striking concentration in the range from 20 to 35%. This represents roughly a range of 25% on both sides of the average at 28%; but within

this range are found 68%, or more than two thirds, of all assessments. Exactly the same range in the 1927 assessment, that is, 25% on both sides of the average, included only 44% of the total number of assessments.

Deviation from Uniformity

In Chart 24, the curve for the reassessment is compared with that for the original assessment of 1927.

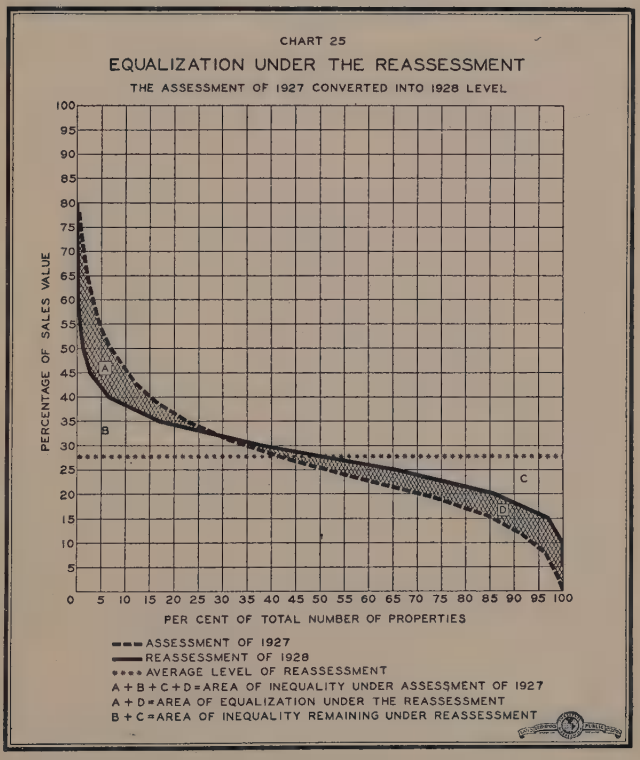


The reassessment is far from perfect; but the contrast between the curve for the reassessment and that for 1927 or any of the previous assessments embraced within the present study is too obvious to call for comment. Measured mathematically the reassessment shows an average percentage "deviation from uni-

formity" of 20%, compared with deviations of 37% in 1927, 38% in 1926, and 40% in 1923.

Amount of Equalization

In Chart 25, the curve for 1927 has been converted into terms of the 1928 average; that is, the whole curve has been dropped, without changing its shape, to



the same average level as the reassessment, in order to make it possible to visualize the deviation of both curves from a common level. The areas of equalization and the areas still remaining to be equalized can then be indicated quantitatively on the chart. The cross-

hatched areas approximate closely one-half of the previous area of inequality. This means that the reassessment wiped out half of the existing inequalities.

Cost of Equalization

But a further significant deduction may be derived from Chart 25 through a simple calculation. The area of *equalization* on the chart represents approximately 20% of the total assessment. The total assessment involved real estate with a value of approximately $11,900,000,000 in Cook County. This total is derived by applying our ratio of 28% to the total assessed valuation for 1928. A similar computation on the basis of the 1927 assessment and our assessment ratio of 35% for that year would yield a total valuation of approximately $11,300,000,000, plus the value of new construction and other enhancements between April 1, 1927 and April 1, 1928, and plus the value of property escaping assessment in 1927 that was brought on to the tax roll in 1928; so that the two estimates check remarkably closely. To be conservative we may take a total value of $11,500,000,000. An equalization representing 20% of the total assessment is equivalent, therefore, to an equalization of the assessments of 20% of this total value of real estate, or $2,300,000,000.

The total cost of the revaluation is reported as approximately $2,187,867. Additional indirect costs due to increased interest payments, financial dislocation, and so forth are chargeable to obstruction and delay in making the revaluation and in legalizing it afterwards. But even allowing $2,000,000, which includes considerably more than the actual costs of valuation, this would amount to a charge of 9/100 of 1% upon the property benefitted. Or if—to lean backwards in meticulous avoidance of over-statement—we wish to take account of the fact that half of the original ine-

quality consisted of *under-assessment* of properties, whose owners would not consider themselves financially "benefitted" by any equalization, however much they might be edified morally and spiritually, and if consequently the entire cost of equalization were charged to the properties *financially* benefitted, this would still involve a charge of only 18/100 of 1% upon the value of this property. This is cheaper tax adjustment than can be secured through any of the "regular" tax-fixing agencies in Chicago.

Comparison by Towns in Chicago

In Table 21, the changes made by the reassessment in the total valuation of the eight "towns" wholly within the city of Chicago are shown.

TABLE 21

TOTAL ASSESSED VALUATION
BY TOWNSHIPS

Townships wholly within City of Chicago	Assessment of 1927	Reassessment	Increase or Decrease
South Town	$ 798,249,931	$ 574,997,709	−27.9%
North Town	241,166,289	199,012,005	−17.5
Rogers Park	91,533,261	83,504,774	− 8.8
Lake View	376,445,170	300,067,135	−20.3
West Town	683,646,938	550,136,259	−19.5
Hyde Park	426,681,111	396,979,319	− 6.9
Jefferson	306,388,112	301,940,550	− 1.5
Lake	278,403,720	255,311,883	− 8.3
Total	$3,202,514,532	$2,661,949,634	−16.9

In Table 22, the average rates of assessment under the original assessment and the reassessment are shown for the same towns and also for that portion of the "town," of Calumet which now lies within the city limits. These results are illustrated in Chart 26. The

TABLE 22

COMPARISON OF ASSESSMENTS
BY TOWNSHIPS

Townships	Average Rate of Assessment	
	1927 Assessment	Reassessment
North Town	41.6%	29.4%
Jefferson	34.2	28.5
Calumet	13.1	28.5
Lake	29.4	28.3
South Town	53.5	28.3
Hyde Park	34.7	28.2
Lake View	35.9	27.8
Rogers Park	36.9	27.7
West Town	33.8	27.0
Average Rate of Assessment	35.9	27.8

most striking feature of these comparisons is the reduction in South Town, previously the area of highest assessments.

Comparison by Districts

In Table 23 and Charts 13 and 27, the average levels of assessment under the original assessment and the reassessment are shown by districts. The reassessment has resulted in a striking levelling out of the "sky-line."

Comparison by Classes of Property

In Table 24 and Chart 28, the levels of assessment for various classes of property are shown.

Single-Family Homes

In Table 25 and Chart 29, the range of assessments for single-family homes is shown, under the original assessment and the reassessment.

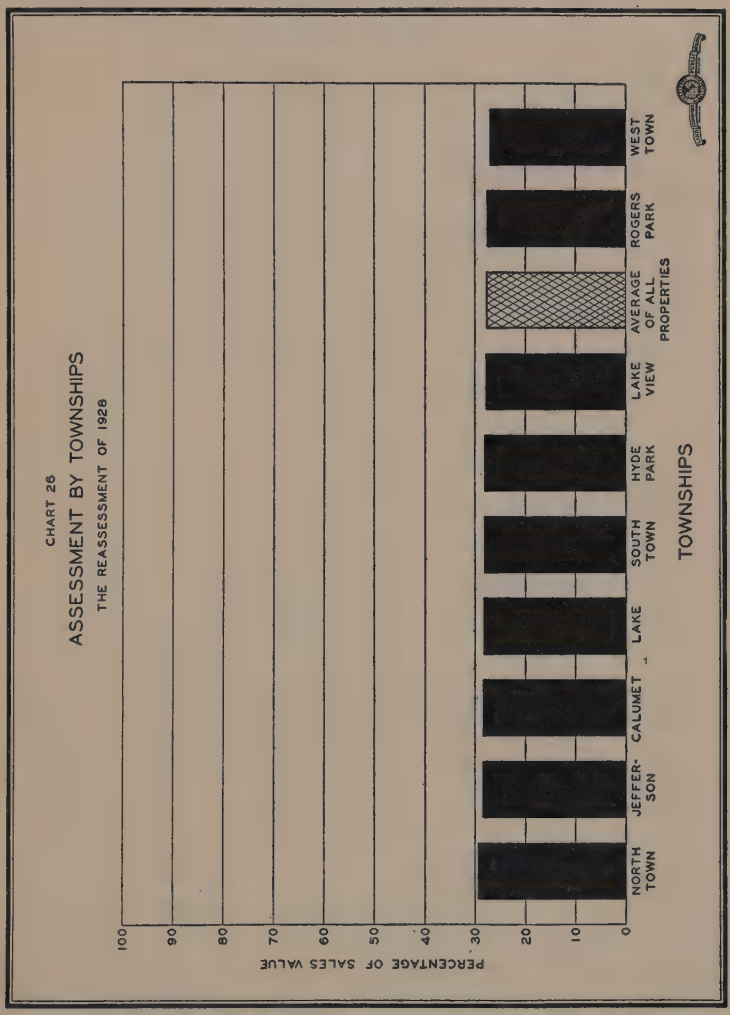


CHART 26
ASSESSMENT BY TOWNSHIPS
THE REASSESSMENT OF 1928
PERCENTAGE OF SALES VALUE
100
90
80
70
60
50
40
30
20
10
0
NORTH TOWN
JEFFERSON
CALUMET
LAKE
SOUTH TOWN
HYDE PARK
LAKE VIEW
AVERAGE OF ALL PROPERTIES
ROGERS PARK
WEST TOWN
TOWNSHIPS

Table 23
Comparison of Assessments By Districts

Districts In Order of Assessment under the Reassessment	Average Rate of Assessment	
	Assessment of 1927	Reassessment
1. Loop	74.0%	41.3%
2. Stock Yard	34.4	34.8
3. 20th Street Post Office	54.3	32.2
4. South Chicago	22.4	31.8
5. Austin	31.7	30.8
6. Lincoln Park	45.4	30.5
7. Grand Crossing	33.7	30.3
8. Montclare	41.7	30.2
9. Logan Square	35.4	29.7
10. Windsor Park	33.5	29.6
11. Edgewater	40.1	29.4
12. Chicago Lawn	27.7	29.4
13. Auburn Park	25.2	29.4
14. Ravenswood	35.6	29.1
15. Dauphin Park	25.3	28.6
16. Jefferson	32.1	28.5
17. Douglas Park	38.0	28.5
18. Garfield Park	35.4	28.5
19. Hawthorne	34.5	28.2
20. Irving Park	34.7	27.8
21. Jackson Park	33.3	27.7
22. Rogers Park	36.9	27.6
23. North Halsted	36.7	27.6
24. Cragin	33.2	27.6
25. Hyde Park	37.1	27.6
26. Washington Heights	13.9	27.6
27. Humbolt Park	33.7	27.6
28. Post Office "C"	44.2	27.3
29. Elsdon	25.9	27.1
30. Englewood	33.2	27.1
31. Ogden Park	30.8	27.0
32. Chicago Ave. Post Office	48.0	26.7
33. Canal St. Post Office	45.8	25.8
34. West Pullman	16.3	25.2
35. Wicker Park	33.8	24.9
36. Kenwood	37.3	24.8
37. Pilsen	32.2	24.4
38. 51st Street Post Office	34.1	24.3
39. Lake View	30.8	23.6
40. McKinley Park	29.5	23.5
41. Pullman	28.0	22.8
42. Armour	35.0	20.8
43. Adams Street Post Office	28.5	18.7
44. Post Office "D"	27.3	18.1
Average level of Assessment	35.9	27.8

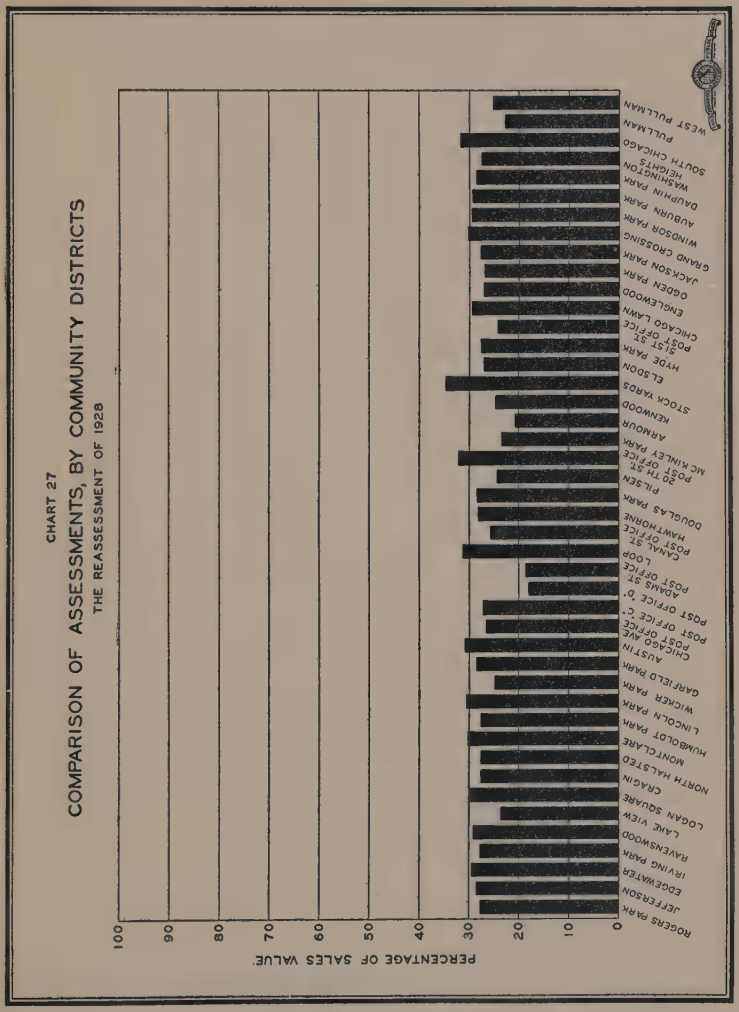


CHART 27
COMPARISON OF ASSESSMENTS, BY COMMUNITY DISTRICTS
THE REASSESSMENT OF 1928
PERCENTAGE OF SALES VALUE
0
10
20
30
40
50
60
70
80
90
100
ROGERS PARK
JEFFERSON
EDGEWATER
IRVING PARK
RAVENSWOOD
LAKE VIEW
LOGAN SQUARE
CRAGIN
NORTH HALSTED
MONTCLARE
HUMBOLDT PARK
LINCOLN PARK
WICKER PARK
GARFIELD PARK
AUSTIN
CHICAGO AVE
POST OFFICE C
POST OFFICE B
ADAMS ST.
POST OFFICE
LOOP
CANAL ST.
POST OFFICE
HAWTHORNE
DOUGLAS PARK
PILSEN
20 TH ST.
POST OFFICE
MC KINLEY PARK
ARMOUR
KENWOOD
STOCK YARDS
EL SDON
HYDE PARK
51ST ST.
POST OFFICE
CHICAGO LAWN
ENGLEWOOD
OGDEN PARK
JACKSON PARK
GRAND CROSSING
WINDSOR PARK
AUBURN PARK
DAUPHIN PARK
WASHINGTON
HEIGHTS
SOUTH CHICAGO
PULLMAN
WEST PULLMAN

TABLE 24

COMPARISON OF ASSESSMENTS
BY CLASSES OF PROPERTY

Classes of Property	Average Rate of Assessment	
	Assessment of 1927	Reassessment
1. Vacant Land	35.2%	35.0%
2. Office and Bank Buildings	56.7	34.99
3. Hotels, Theatres and Amusements	33.1	34.96
4. Miscellaneous	35.3	30.6
5. Single-Family Residences	32.6	28.2
6. Duplexes and Two-Flats	33.1	27.8
7. Combined Business and Residence	34.7	27.0
8. Apartment Buildings	34.9	27.0
9. Commercial—Wholesale and Retail	39.0	26.8
10. Industrial	43.8	24.2
Average Rate of Assessment	35.9	27.8

Table 26 indicates the average rates of assessment for single-family homes, classified according to value, and the results are illustrated in Chart 30.

These, in brief, are the results of the reassessment from the standpoint of equalization. They indicate that while this assessment is not perfect, it represents a striking improvement over any assessment that has been made within the period covered by this study; and so far as any information can be secured relative to assessments in previous years, it appears to have been the best assessment Chicago has had in many years. When it is considered that this assessment had to be made from the ground up, so to speak, with no existing organization or staff, with no information in the offices of the Board of Assessors or Board of Review, without even the essential maps or the most rudimentary equipment, and in the face of every difficulty that local officials and political organizations could put in its way, the result can scarcely be considered less than remarkable.

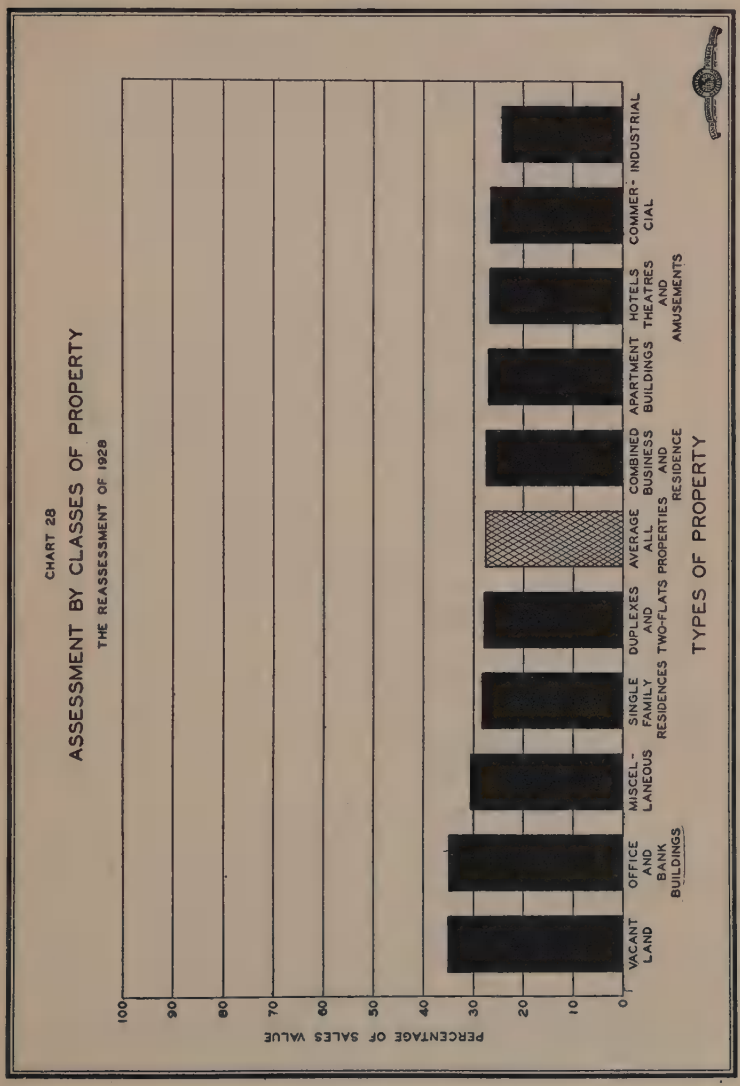


CHART 28
ASSESSMENT BY CLASSES OF PROPERTY
THE REASSESSMENT OF 1928
PERCENTAGE OF SALES VALUE
100
90
80
70
60
50
40
30
20
10
0
VACANT LAND
OFFICE AND BANK BUILDINGS
MISCEL-LANEOUS
SINGLE FAMILY RESIDENCES
DUPLEXES AND TWO-FLATS
AVERAGE ALL PROPERTIES
COMBINED BUSINESS AND RESIDENCE
APARTMENT BUILDINGS
HOTELS THEATRES AND AMUSEMENTS
COMMER-CIAL
INDUSTRIAL
TYPES OF PROPERTY

TABLE 25

SINGLE-FAMILY RESIDENCES
RANGE OF ASSESSMENTS

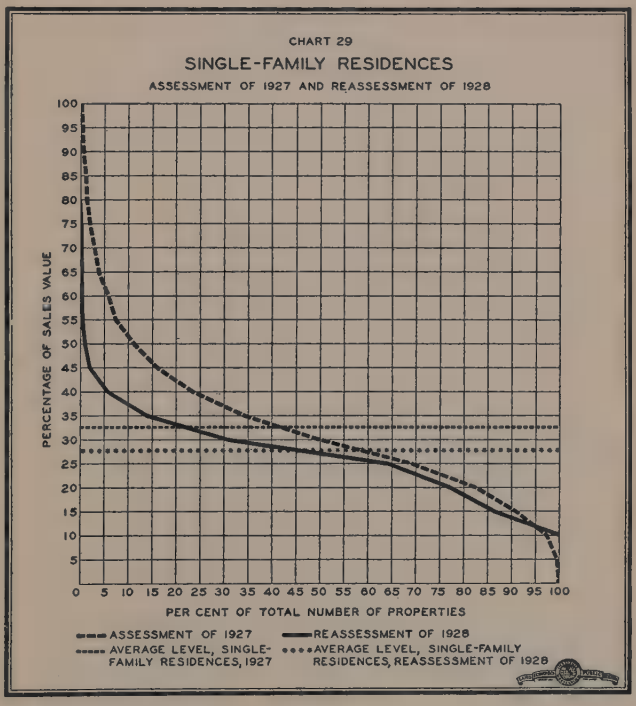
Percentage of Sales Value	Number of Properties		Percent of Total Number of Properties	
	Assessment of 1927	Reassessment	Assessment of 1927	Reassessment
1–5	5	0	.4	–
6–10	28	0	1.6	–
11–15	85	26	6.2	2.8
16–20	106	93	7.4	10.1
21–25	176	213	11.2	23.2
26–30	248	304	16.2	33.2
31–35	204	156	15.4	17.1
36–40	139	77	13.4	8.4
41–45	97	33	9.5	3.6
46–50	63	10	5.6	1.1
51–55	49	1	4.4	.1
56–60	20	2	1.8	.2
61–65	26	0	2.1	–
66–70	12	0	1.0	–
71–75	12	0	1.3	–
76–80	8	2	.8	.2
81–85	4	0	.5	–
86–90	6	0	.5	–
91–95	2	0	.2	–
96–100	2	0	.3	–
Over 100	3	0	.4	–
Total	1295	917	100.0	100.0

II. *Indirect Results*

The indirect results of the reassessment may ultimately prove to be of more value even than its direct results. For the reassessment, if nothing else, has demonstrated the possibility of having a businesslike, non-political assessment of property in Cook County. This does not necessarily mean an accurate assessment; and we may concede some error and inaccuracy. But error and inaccuracy can be smoothed out in the regular processes of valuation and correction from

year to year, *if these processes are free from political manipulation*. The reassessment has demonstrated the possibility of carrying on such a process of assessment.

In the second place, the reassessment has established—for the first time in thirty years, so far as the writer has been able to ascertain—a definitely recog-



nized level of assessment, which every taxpayer has a right to demand. 37% of appraised valuation may not have been the wisest level to adopt; it may be too low, in reference to the needs of the various local governments and in reference to the level prevailing throughout the state. If so, it should be corrected at the first opportunity. It may be automatically corrected by

TABLE 26

SINGLE-FAMILY RESIDENCES
CLASSIFIED ACCORDING TO VALUE

Sales Value	Average Rate of Assessment	
	Assessment of 1927	Reassessment
Less than $15,000	33.5%	27.9%
$15,000 and less than $25,000	33.4	29.1
$25,000 and less than $35,000	30.9	29.0
$35,000 and less than $50,000	32.5	30.7
$50,000 and over	28.0	24.1
Average Rate of Assessment	32.6	28.2

the deflation of real estate values themselves. But in any case, we are making much headway when every taxpayer in Cook County knows at what level he has a right to be assessed, without resort to the courts or to the devious processes of professional "tax adjustment." We are making no small headway, likewise, when, through publication of these assessments, every taxpayer is also in position to judge the equitableness of *his neighbor's assessment* as well as his own.

In the third place, the reassessment has established standard methods of valuation, records, files, and equipment in the Assessors' offices, and has for the first time in many years accumulated a fund of definite information relative to properties in Cook County. All of this, if utilized, will very materially reduce the cost of the next assessment and greatly increase its accuracy.

In the fourth place, the reassessment has demonstrated beyond peradventure or doubt the necessity of a centralized assessment administration. Incidentally, it has shown the importance of a state tax commission or of some form of state agency, independent of local political elements and factional interests, and

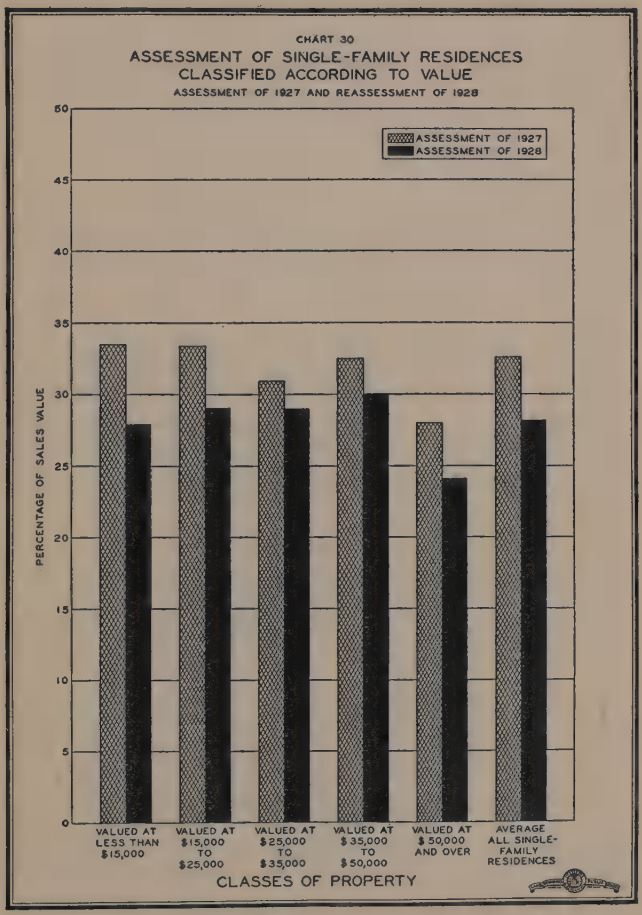


CHART 30
ASSESSMENT OF SINGLE-FAMILY RESIDENCES
CLASSIFIED ACCORDING TO VALUE
ASSESSMENT OF 1927 AND REASSESSMENT OF 1928
ASSESSMENT OF 1927
ASSESSMENT OF 1928
PERCENTAGE OF SALES VALUE
50
45
40
35
30
25
20
15
10
5
0
VALUED AT LESS THAN $15,000
VALUED AT $15,000 TO $25,000
VALUED AT $25,000 TO $35,000
VALUED AT $35,000 TO $50,000
VALUED AT $50,000 AND OVER
AVERAGE ALL SINGLE-FAMILY RESIDENCES
CLASSES OF PROPERTY

the necessity of making the powers of such state agency more definite and specific.

In the fifth place, the reassessment has brought to the surface a number of specific problems. One of these is the question whether, in a jurisdiction embracing more than a million and a quarter separate parcels of real estate, it is wise to attempt general quadrennial reassessments at all; or whether it would be a wiser course to adopt a policy of more or less constant readjustment, where and when necessary, in an effort to maintain a reasonably accurate inventory of real estate values throughout the county.

Another is the problem of proper allowance for obsolescence. In Chicago there have been rapid and sometimes violent changes in the character of whole districts, rapid shifts of business and residential uses from one district to another, and radical changes in type and equipment of buildings for particular uses. The result is a heavy factor of obsolescence in many sections of the city, entirely independent of questions of mere physical depreciation. It is doubtful whether the reassessment gave adequate weight to this factor, or whether any reassessment could do so, in its initial valuation of improvements throughout the entire county. But the reassessment has brought this problem into the open, where it can be given systematic consideration.

Another such problem, with which the reassessment staff has struggled and feels that an adequate solution has not been reached, is the assessment of "Class D" railroad property; that is, railroad property other than roadbed, right of way, and rolling stock, subject to local assessment. And still another is the assessment of agricultural lands in Cook County, where suburban and subdivision influences have caused some enhancement of values, but where it is

reasonably apparent that much of this land will still be raising cabbages and pickles fifty years from now. Herein lies one of the most difficult problems of valuation, one with which theoretical economists have struggled without result; and it would be expecting the impossible to ask the reassessment staff to solve it satisfactorily in a year.

But the reassessment has resulted, as have most such general revaluations within the writer's knowledge, in disposing satisfactorily of the great bulk of fairly standarized and typical classes of property and bringing into sharp relief a variety of special problems, which will require more extended and intensive study for a satisfactory solution. Under a haphazard, unscientific, and discriminatory assessment, these problems do not even emerge.

And finally, the reassessment has precipitated in more acute form than ever the problems of disparity among counties, between real estate locally assessed and railroad and other property assessed by the State Tax Commission, and between real estate and personal property. These are outside the scope of the reassessment; but the establishment of a definite level for the assessment of real estate in Cook County has laid these problems squarely in the lap of the State Tax Commission and the Legislature.

CHAPTER XII

THE CITIZENS' COMMITTEE

THE reassessment removed for the time being the most vicious elements in control of the assessment machinery. It remedied the more flagrant inequalities and relieved those districts and classes of property that had been suffering the most conspicuous injustice under the old assessment. It will scarcely be necessary to say, however, that this represents only the most temporary rectification; for if public scrutiny is relaxed and the assessment machinery turned back to the old elements formerly in control, it is fairly obvious that it will not be three months before the old "racket" will be in full operation again. That "reassessment" will not take six months.

The Financial Crisis in Chicago

But the reassessment cost the city some hardships which called for relief. The actual work of revaluation occupied about a year. Originally ordered in May, 1928, it could easily have been completed by late spring or summer of 1929. In Chicago, the taxes collected in a given year are levied upon the assessment of the preceding year. In 1928, taxes were collected upon the 1927 assessment—with heavy losses in collection on account of the number of complaints and the amount of litigation directed against that assessment. In 1929, in the regular course of events, taxes would have been collected upon the 1928 assessment, normally completed prior to December 31, 1928. Penal-

ties on unpaid taxes do not become effective, however, until April 1st; and ordinarily the actual collection of taxes is spread over the first six months of the year. So that if the reassessment had been begun promptly and had been permitted to proceed without unnecessary interruptions and delays, the regular collection of taxes in 1929 would at most have been delayed only a few months. And since the city actually finances the greater part of its expenditures not out of the proceeds of tax collections as they come in, but out of tax anticipation warrants against anticipated taxes of *the following year*, expenditures in 1929 would have been financed in the regular way, through tax anticipation warrants *against taxes collectible in 1930*.

Consequently, if the reassessment had been completed in the summer of 1929, there would have been no perceptible disturbance in the immediate finances of the city; and the chief effects would have been the slight increase in interest accumulated on warrants outstanding against the 1929 tax collections and the decrease in total revenues on account of the decrease in total valuation for Chicago.

The decrease in total valuation for the city of Chicago amounted to approximately 14%—no negligible amount, it is true. But had this shortage emerged in 1929, it could have been absorbed without shock through ordinary methods of financing at the time, through a little reduction of waste and extravagance subsequently in any one of a dozen available quarters and through subsequent increases in assessed valuation on account of new construction, even without increases in the general level of assessment.

But while the revaluation took only a year, the delay and obstruction took another; and in that interim the city and other local governments came near being included in this long list of financial "failures"

for the year 1930. Salaries of teachers in the city schools, of the police, and other essential employees were suspended in December, 1929. The city's total indebtedness, funded and floating, was small in comparison with that of other large cities, and its credit was fundamentally sound. But with the 1928 assessment still uncompleted, anticipation warrants could not be sold against taxes collectible upon more distant assessments.

The credit of the city was further injured by the ill-repute of its governmental administration and its tax system and by exaggerated reports of its financial difficulties throughout the country. The writer was informed in a hotel lobby in an eastern city in January, 1930, that the city was bankrupt, its stores and factories closed, and its people in acute distress. He has been asked whether it was true that money was no longer in circulation in Chicago and that city warrants and scrip were the only media of circulation. He has heard the Chicago situation discussed in much the same terms as people discussed the situation in European countries in the days of empty treasuries and worthless currencies following the War.[1]

The Citizens' Committee

Late in 1929, the Finance Committee of the City Council requested the Joint Commission on Real Estate Valuation to make a thorough analysis of the situation with which the city was faced and to suggest any available lines of relief. The Commission made such an analysis, which was published as the Joint Commission's *Report III*.[2]

With this report as a basis for action, Mr. Fairweather, chairman of the Commission, went to various

[1] See "The Financial Crisis in Chicago," *Review of Reviews*, April, 1930.

[2] *A Study of the Present Financial Difficulties of Local Governments and Their Causes.*

business and civic groups in an effort to secure united citizen action to avert immediate disaster and to formulate some program of constructive legislation and policy for the future. In January, 1930, a Citizens' Committee was formed under the chairmanship of Silas H. Strawn, formerly president of the Chicago Bar Association and of the American Bar Association and one of the most public spirited citizens of Chicago, whose leadership, it was felt, would insure confidence on the part of all groups in the sincerity and disinterested purpose of the Committee.

Mr. Strawn gathered together a committee of fifty-eight, representing every interest and every point of view, and an advisory staff made up of representatives of the Chicago Civic Federation, the Chicago Bureau of Public Efficiency, the Joint Commission on Real Estate Valuation, the Universities of Chicago, Illinois, and Northwestern University, and the Institute for Economic Research at Northwestern University. The Chicago and North Western Railway made available to the Committee, without expense, the services of the staff of its highly developed statistical department. Numerous groups and individuals contributed generously to finance the work of the Committee.

Four lines of effort were set up as the general objectives of the Committee:

1st. The raising of some $74,000,000 to finance the pressing needs of local governments until regular tax collections were resumed.

2nd. Provision for reimbursing this amount from governmental revenues and for taking up any other deficits and shortages that should have accumulated by the time adequate revenues were available.

3rd. Provision against the recurrence of a similar situation in the future, so far as this was the result of borrowing and spending policies of the local governments.

4th. A reorganization of the assessment administration in Cook County, which, it was felt, was the fundamental cause of the present debacle.

The committee succeeded in its first three objectives, and the measures taken in connection with each of these objectives will be briefly summarized. In the formulation of these measures the Chicago Bureau of Public Efficiency and the Civic Federation of Chicago were particularly helpful.

Immediate Relief

The Committee evolved the plan of a "Cook County Taxpayers' Warrant Trust," in which taxpayers, particularly those with large amounts of taxes accrued during the two years in which taxes had not been collected, would be urged to invest spare funds, receiving therefore certificates of beneficial interest in the Trust. The funds thus accumulated were to be invested in 1928, 1929, and 1930 tax anticipation warrants of the various local governments, in such amounts and at such times as might be necessary to maintain these governments until regular tax collections should be resumed. Philip R. Clarke, President of the Central Trust Company of Illinois, a leader in the Liberty Loan drives during the War, organized a similar "drive" and after heroic efforts on his part and that of business and civic leaders generally succeeded in raising, early in March, approximately $74,000,000. Under the careful supervision of the Committee, the proceeds of this fund provided for the essential needs of local governments until the 1928 taxes were put in collection.

Emergency Revenue

Careful calculations were made of the probable amount of "deficits" and shortages that would exist,

even after regular tax collections were resumed. These shortages were due in varying proportions to the decrease in assessed valuation within the city of Chicago, to accumulated and excessive interest charges incurred during the period of delay, to loss of interest that would have been earned in the case of certain funds, to higher prices charged for supplies purchased by the city, and to other incidental circumstances. They were due at bottom, of course, to the unmitigated waste and extravagance that had been practiced by most of the local governments for years and to the unwillingness of these governments to practice any economy, even in the face of the disaster that menaced the city, except in such picturesque ways as threatening to lay off the police force and the fire department. They were due, likewise, to the fact that the city was already a year behind in its issues of tax-anticipation warrants. In the year 1928, for example, *when taxes were collected on the 1927 assessment*, the expenditures of that year were financed not out of the proceeds of these taxes or of warrants previously issued against these taxes, but out of the proceeds of warrants issued against the *anticipated tax collections of 1929*. This had the effect not only of putting the city in a position of being perpetually a year behind, or of always spending a year ahead of its income, but of exposing its tax anticipation warrants to the hazard of anything that might happen to its revenue, when estimated thus far ahead.

All of these various shortages were laboriously computed, as best they could be, for the various local governments, and a group of bills were drawn providing the necessary revenue to cover them, either through slight increases in tax rates or through issues of short term bonds without referendum. To insure the legality of warrants already issued, about which some questions had been raised, bills were also drawn

legalizing such outstanding warrants and providing for their payment out of any general funds available, in case the taxes against which they were specifically issued should not be sufficient. To lessen the onerousness of paying the two years' taxes that had now accumulated, those for 1929 and 1930, bills were drawn spreading the payment of "annual" taxes for the next five years over periods of approximately ten months, and bringing the schedule back to the regular dates for payment, penalties, etc. in the year 1935.

Limitations upon Expenditures and Temporary Borrowing

Two sets of measures were drawn as steps toward preventing a recurrence of the situation. One provided that total annual appropriations out of revenue should not exceed the amount that would be arrived at by multiplying the last previous assessment by the maximum tax rate permitted. Hitherto the amount of appropriations had been little more than a guess. This at least would tie them down to a definitely computed figure. It applied to the City, the County, and the Board of Education.

The second provided for the creation of a revolving "cash fund," out of the proceeds of an initial bond issue and an annual special tax thereafter. The "cash" carried in this fund was to be applied to the payment of regular expenses under such provisions that the net effect would be to reduce the amount of tax anticipation warrants issued by approximately the amount of this "working cash fund." The result would be, in the course of a period varying from 30 to 50 years, to put the governments concerned, namely, the City, County, and the Board of Education, upon a "cash" basis so far as their current expenditures were concerned.

Reorganization of Assessment Administration

A program for establishing a modern, business-like system of assessment administration and methods was carefully worked out. Its general features included an increase in the powers of the State Tax Commission and the creation of a single Board of Assessment and Revision for Cook County. In the early deliberations of the Committee and its Advisory Staff this was considered to be one of the most important of the Committee's objectives. Two circumstances necessitated the temporary postponement of this part of its program. In the first place, the Committee found itself confronted by an unprecedented condition of financial chaos and felt that in this crisis measures to restore the solvency of the city and other local governments must take precedence over everything else. In the second place, representatives of the State administration and the legislature urged the impracticability of securing consideration of the general subject of assessment reorganization at the proposed special session of the legislature. The Committee, therefore, decided to defer this part of its program for the time being and to concentrate all its effort upon the difficult problems of financial rehabilitation.

The proposed increase in powers of the State Tax Commission was retained among the recommendations of the Committee, but was modified in the final process of drafting in such a way as to involve the Governor in proceedings relating to reassessment and displacement of local officials, and in such a way also as to give the Tax Commission a type of authority for the displacement of local elected officials that was not contemplated in the original recommendation of the Committee. The first of these provisions was promptly —and wisely—rejected by Governor Emmerson; the

second was unceremoniously tabled when it came up at the Special Session.

Consequently the actual program of the Committee was limited to the three groups of measures previously outlined, including validation of outstanding tax anticipation warrants, provision for the necessary bond issues and tax increases to cover the accumulated deficits and shortages, a schedule of tax payments over the next five years to lighten the burden of the taxes in arrears, creation of a revolving cash fund for the City, County, and Board of Education in order to reduce the amount of tax anticipation warrants issued, limitation of total annual appropriations out of tax revenue to an amount equal to the last previous assessment multiplied by the maximum tax rate, and a variety of detailed provisions in connection with these subjects.

The Special Session

Governor Emmerson had firmly refused to call a special session of the legislature until Chicago groups were in substantial agreement upon a program for relief. When it appeared that such agreement had been reached upon the general features of the program of the Citizens' Committee, a call was promptly issued, on May 1st, for a special session to convene on May 12th.

Meanwhile a Legislative Revenue Commission had been authorized at the last regular session and had been appointed by Governor Emmerson in the summer of 1929, with Senator Huebsch, of Brookfield, as chairman. The Commission had not succeeded in uniting support back of any comprehensive program, and the political character of its membership had somewhat lessened its influence upon public opinion. But largely under the influence of Governor Emmerson and the

persistent efforts of its secretary, Levi H. Fuller, of Oak Park, it came forward at the opening of the Special Session with a brief report and a clean-cut, constructive proposal. This was a recommendation for a constitutional amendment, in substance abolishing the uniformity provision and conferring upon the Legislature broad powers of tax legislation, subject only to the general restrictions inherent in the State and Federal constitutions. It was a clean-cut, statesman-like proposal of a kind that has not been characteristic of Illinois politics for some years.

The convergence of the two things, the Citizens' Committee Program and the proposal for a constitutional amendment, upon the Special Session created a dramatic situation. Downstate groups demanded the amendment, as a means for securing an income tax. Influential groups in Chicago were opposed to an income tax and opposed to conferring any broader powers upon the Legislature, because failure to reapportion the state since 1900 had left Chicago with less than its proportionate representation in the Legislature. Chicago needed relief, however, and could reasonably be asked to concede something in return for it. In a sense, it was a spendthrift Esau again coming to the tents of the humble Jacob, who had nothing but a mess of potage to give—and sufficient gumption to bargain over it.

At the last minute, the supporters of the amendment yielded to two unfortunate changes in the Commission's proposal. One of these eliminated the Commission's proposed amendment of the clause relating to exemptions. The result is apparently to leave the Legislature without power to exempt intangibles or other forms of personal property if it should be decided to substitute an income tax in place of the personal property tax. The other limited the State's

share in the proceeds of any income tax to 15%, except by a two-thirds vote of the Legislature. With these changes a sufficient number of Cook County votes were obtained to adopt the resolution, submitting the proposed amendment to popular vote at the November election; after which the Strawn Committee's program, in the form of 30 bills, was likewise adopted with only certain minor amendments.

But aside from such elements of bargaining between the adherents of the Constitutional amendment and the Relief Program, it should be said that the Chicago representatives displayed the most plain-spoken frankness and sincerity in laying the facts of the situation before the Legislature; and the down-state representatives, notwithstanding some long-standing elements of friction, manifested the utmost readiness to do whatever was necessary to relieve the situation in Cook County. With this background and with Governor Emmerson's support of both groups of measures, the Special Session enacted a really comprehensive program of legislation, involving numerous complexities and intricacies, in a remarkably short time. The effectiveness of the Citizens' Committee's program was attested by the prompt restoration of the credit of the city and other local governments and the immediate marketability of their securities at prices that compared favorably with those for the securities of any other municipalities in the country.

The Legislature was technically in session, with frequent recesses, from May 12th until June 25th. In that time there were numerous occasions when radical action seemed imminent. The minority party under the leadership of Representative Igoe, in the House, took up the discarded portion of the Citizens' Committee's original program, dealing with the reorganization of the assessment administration, and pressed it

for immediate action, precipitating a heated discussion and wholesale denunciation of the assessment administration in Cook County. There is serious doubt about the accuracy of judgment of those who had advised the impossibility of securing action on this subject at the Special Session. Indeed, for two or three days of heated sessions the general feeling about the Capitol appeared to be that only the Governor's restraining influence prevented the immediate abolition of the present Board of Review and Board of Assessors in Cook County.

Be that as it may, the Legislature adjourned on June 25th. Cook County went home with its "relief," and the Down State went home with no increased affection for Chicago and no assurance of relief from its own onerous tax burdens.

PART III

TAX REMEDY

CHAPTER XIII

ORGANIZATION AND ADMINISTRATION

"First Aid"

THE previous chapter dealt with "first aid" measures of relief, the importance of which is not impaired by the fact that their effects are temporary —just as the value of a pulmotor at a critical moment is in no degree lessened by the fact that the patient's health for years thereafter will depend upon diet, exercise, and other more permanent factors.

And there were some permanent elements even in this relief program. In the first place, the total amount of annual appropriations is limited to the *maximum tax rate* × *the last previous assessment.* This, it is true, is no actual limitation upon the amount of expenditure, since, with assessments now at a level of approximately 30% of full value, it is only necessary to raise the assessment by a small percentage in order to enormously increase the amount of expenditures permitted. It would be more accurate to say that it specifically defines the maximum expenditure of any year *in terms of assessment*—it provides that the municipality shall not *spend more than it taxes.* But even this is something. In the same way, since tax anticipation warrants are already limited to 75% of anticipated taxes, it follows that the total amount of warrants is defined in the same way as expenditure, that is, in terms of the last previous assessment. It is true that the *next* assessment may be materially reduced, or tax collections may decline for other reasons,

so that the amount of anticipation warrants may still exceed the 75% limit or may even be in excess of the total tax collections; but still it is better to have their amount defined in terms of some actual assessment than in terms of any guess the city council or other taxing body may make with regard to the probable amount of tax collections a year and a half ahead.

In the second place, the "working cash fund," if not diverted from its original purpose by subsequent legislation, will have the effect eventually of eliminating the issue of tax anticipation warrants, or at least of limiting such issues to warrants issued against the the current year's tax collections rather than against taxes collectible in the following year. And this will be a real and permanent gain.

Permanent Remedy

But even such permanent provisions as were involved in the relief measures had to do with temporary borrowing and with expenditures, not with taxes; so that the whole problem of remedy for existing tax conditions still remains; and this will form the subject of our concluding discussion. In order to retain some clarity of thought, in a subject that has become needlessly complicated in Illinois, we shall separate, in one group, those remedies that lie solely within the field of organization and administration, without involving any fundamental change in our general system of taxation; and consider, in another group, those remedies that will require new forms of tax legislation. The present chapter will be limited to the first group.

What a Thoroughgoing Reorganization Would Involve

If we were dealing with a business proposition, a "receivership" would be expected to result in a "reor-

ganization," with a view to evolving a sounder financial structure and more efficient operation and perhaps to removing an unscrupulous management. In any case, such a reorganization would be directed along lines of eliminating the causes of the previous failure.

In the case of Chicago and Cook County, the lines along which such a reorganization should be worked out are indicated with reasonable clearness by the experience of other large cities; and if it were a business proposition, such a reorganization would not be extremely difficult, in spite of the magnitude of the property values involved. After all, we are living in the twentieth century, in the midst of great cities with a century of experience even in this country and much longer experience in the case of old world cities.

Even a great city like Chicago, with its three and a quarter million population, is no longer overwhelming in its physical magnitudes or in the mechanics of its operation. We no longer entertain visitors with views of the "elevated railway," as pictured in the old school geographies, or of the hucksters and produce markets along the old river front on South Water Street; and there is no reason why we should continue to entertain them with political and economic structures that have come down from a still earlier period. It is true, we still show tourists the old stone water tower that boasts of having "survived the fire," overlooking apparently the irony of canonizing a water tower that only managed to *survive* a fire. Indeed, many of Chicago's boasts have to do with the variety of things it has "survived," and it is to be hoped that its capacity for surviving misfortune and hardship has not been impaired. But with the approach of its centennial celebration in 1933, it would seem appropriate to plan for some more constructive achievement than merely that of having survived for a hundred years.

And so, on the basis of abundant experience on the part of other cities, it may be pointed out that a constructive reorganization of the muddled affairs of Chicago and Cook County would necessarily follow these general lines:

1. Governmental consolidation of the overlapping and conflicting jurisdictions which, as a result of historical accident, politics, efforts to evade tax and bond limitations, and various other extraneous circumstances, have been jumbled together in Cook County. And complicated as these governmental relations are, it may nevertheless be said that *except for politics* the task of simplifying and coordinating these governmental bodies would not be more difficult than that of disentangling the complicated holding-company and interlocking corporate and credit relations that are unscrambled in the business world today.
2. Somewhat enlarged powers of home-rule for this consolidated government. The appointment of park boards in Chicago by the governor of the state and the fixing of tax rates for school buildings in Chicago by the Legislature in Springfield are illustrative of some of the present anomalies.
3. Some form of genuine Budgetary System of finance for this consolidated government, with centralized control, definite responsibility, and coordinated expenditures.
4. A centralized assessment administration.

Most of these things will require a long period of education and effort and the development of a higher type of leadership in the city and state. They will come gradually, and things can go along until they do come. But there is one field of reorganization which demands immediate action and should be made the subject for

action by the next session of the Legislature. This is the reorganization of the assessment administration.

The specific details of such a reorganization will have to be worked out in conference with the business and civic organizations interested in securing it. But the general lines which such a reorganization should follow are likewise indicated in the experience of other states and will be briefly outlined in the present chapter.

Assessment Administration

1. Powers of State Tax Commission

In one respect the problem of local assessment organization cannot be isolated from that of the state; this is in its relation to the State Tax Commission. And after the experience of Cook County during the past two years, it is difficult to understand how any sane person can fail to realize this. The present statutes give the State Tax Commission unqualified authority to order a reassessment at any time but no means, other than public opinion and the devious processes of litigation, to enforce such authority. The logical result is the *impasse* between state and local authorities that has existed for the past two years.

One of two things must be done. Either the Tax Commission must be deprived of authority to interfere in local assessment; or it must be given the power to make its interference reasonably prompt and effective. The latter would be the wiser alternative and the one in line with the development of tax administration in other states. Such centralized authority is necessary, if we are to have any approach to a state-wide equalization of assessments or any unification of assessment practice. It is necessary, likewise, in order to afford to local communities some recourse against buccaneering local groups that not infrequently get control of

the assessing machinery and exploit it unscrupulously.

Such an increase in the authority and responsibility of the state tax department is not based on any assumption that state officials are necessarily more able or conscientious than local, but on the fact that they are almost certain to be held in fairer equilibrium by the pressure of state-wide groups and interests and by the wider area of criticism to which they are subjected. Many of those forms of local pressure before which a local assessor so often proves helpless are likely, in the case of a state taxing body, to be entirely neutralized by equal pressures from other quarters. In these matters, the wider the area the more equal the balance is likely to be.

The necessary power would ordinarily be conferred in the form of authority not only to order a reassessment, but to make such assessment, when local officials are unable or unwilling to do so. The occasion could rarely arise when it would be necessary to resort to such action; but the *authority* to do so is absolutely necessary in order to give effectiveness to the Commission's orders for reassessment and to insure the prompt and sincere compliance of local assessing bodies.

The bickering, litigation, uncertainty, and delay that have accompanied orders for reassessment not only in Cook, but in Champaign, St. Claire, and other counties, is childish business from the standpoint of the government and from that of the taxpayers who become the helpless bone of contention. Any department of government that can be entrusted with authority to order a reassessment, or to order anything else for that matter, must also have the power to execute its order—unless this order is countermanded by some higher authority. An order that can be countermanded *by the very party against whom it is directed* is worse than futile.

It is all very well to utilize existing local bodies, when these are available and willing to cooperate. Ordinary common sense would dictate such a course. But it is futile to make any branch of government *dependent* for the execution of its orders upon the very officials whose breach of duty is the subject of the action. How far would a court get whose jail sentences depended for their execution upon an "order" to the defendant to incarcerate himself? Occasionally, it is true, an eccentric judge will sentence a defendant to attend church or not to play bridge or something of the kind; and perhaps in these minor matters even the courts can be allowed their jests. But we cannot apply this kind of humor to matters involving billions of dollars of property and all the vast powers associated with taxation.

In the recent unpleasantness in Chicago, if the Board of Assessors and Board of Review were guilty of half the things they were charged with, an order to them to reassess was equivalent, figuratively speaking, to an order to "hang" themselves and to do so in a particularly conspicuous and mortifying manner; and no other outcome than the one witnessed could reasonably have been anticipated. On the other hand, the Revaluation Staff could just as easily have been *employed* by the Tax Commission, if it had had this authority, as by the Board of Assessors. The result would have been an enormous gain in promptness and precision and an enormous saving in costs.

But if the powers of the Commission are increased, its present unwieldly and superfluous membership should be reduced to some efficient size. If the other alternative is adopted, and the Commission is deprived of such powers as it now has, it does not matter greatly how large a membership it has. If the governor must have room to install political and personal appointees

somewhere, presumably the offices of the State Tax Commission will do as well as any; and in that case, the fewer powers they have, the better. But if it is to be a working commission for the exercise of effective supervision over tax matters throughout the state, its membership should be reduced. As originally created in 1919, its membership was three. Its increase to five in 1921 was made for purely political and personal reasons. It should be reduced again to three, the usual membership of state tax commissions in other states. The advantage of this particular size is that it is not large enough to become unwieldy or to make a convenient depository for political "fillers," and yet is large enough to embrace some offsetting viewpoints and interests. It is largely in these two elements that the merit of a state tax commission lies.

2. Local Assessment Administration

The assessment organization of Cook County contains a particular challenge to the citizens of the county, for two reasons. In the first place, here is one administrative function in which the jurisdiction is the entire county, with one assessment for all governmental units and for all purposes. In the second place, it has long been customary to explain the political misdeeds of Chicago, in part, on the ground that many of her most intelligent citizens live and vote in suburban towns outside of the city and have no voice in the city government. Here, however, is a department of government where suburban decentralization affords no explanation; where the best citizens of Evanston and Oak Park, not to mention more modest villages, have full opportunity to express whatever peculiar virtue or intelligence they may possess. And yet it may be doubted whether any department of local government has fallen into a more deplorable condition

than this very one. It is evident, as Justice Brewer observed many years ago, that "there is no magic in county organization,"[1] as such, unless there be an efficient type of organization in itself. This latter is the thing that is now lacking.

The present assessment organization in Cook County is probably "as bad as anything that could be devised," as an English Chancellor of the Exchequer once said of a certain group of taxes in England. It consists of 30 local assessors, a Board of Assessors composed of five members, and a Board of Review composed of three members—all elective, possessed of overlapping powers, and numerous enough to pass the blame for anything that occurs back and forth among themselves indefinitely. All of the groups working upon the problem in Chicago are in agreement that the chief defect of the whole system is this extreme decentralization of responsibility; and all agree that the remedy must be sought in the direction of a larger degree of unification and centralization. Differences of judgment are concerned with the particular mechanism to be set up and with the limits of political feasibility.

From the early hearings before the Joint Legislative Revenue Committee in 1928 to the present time it has been a trite observation about Chicago and at Springfield, based on grounds of political expedience, that it is of no use to propose abolishing the present Board of Assessors and Board of Review. It is quite possible that the observation is accurate. In that case, the taxpayers of Chicago are in for some sad experience during the next fifty years, and the Lord only can help them; it may be doubted whether he will find it "politically expedient" to do so.

[1] *Michigan Central Railroad Company v. Powers*, 201 U. S. 245.

In the meantime there will be no substantial or permanent relief until someone has the courage to take the bull by the horns. This will mean abolition of both the Board of Assessors and Board of Review, as at present constituted, and the substitution of an administrative organization upon which responsibility can be definitely and clearly concentrated. The Joint Commission on Real Estate Valuation, in 1928, recommended a single elective County Assessor.[2] The Joint Legislative Revenue Committee made a similar recommendation in March, 1929.[3] The writer urged some reasons why such an assessor should be appointive rather than elective, to be appointed presumably by the President of the County Board of Commissioners.[4] Subsequent discussion throughout the state has brought the latter suggestion much more within the range of practical consideration than seemed possible a year ago.

The experience of other cities affords two general types of organization. One consists of appointive assessors or boards, in cities where the city is the assessment jurisdiction, and where the assessment organization is appointed by the mayor and responsible to him.

The other prevalent type is that of an elective assessor, where the county is the assessment jurisdiction.

In Cook County the county is already the assessment unit, and it is desirable that it shall continue to be. It is possible that out of the medley of existing local governments the county may gradually emerge into something more nearly approaching a unified

[2] *A Study of Assessment Organization and Legislation in Its Application to Cook County—Report II*, Prepared by the Joint Committee on Real Estate Valuation, for the Board of County Commissioners of Cook County, June, 1928.

[3] *Report*, pp. 71–72.

[4] *The Tax Situation in Illinois*, pp. 82–83.

metropolitan government. Be that as it may, the assessment organization must be adapted to the county unit of assessment. This does not preclude the concentration of responsibility in the hands of a single assessor, but it complicates somewhat the choice of such an assessor. The specific problem is whether appointment or election is likely, on the whole, to secure abler assessors and greater consciousness of responsibility. The reasons for believing that appointment of the assessor by a responsible government head will, year in and year out, yield the better results are briefly these.

The assessment of property in a city like Chicago is purely an administrative task, requiring administrative ability of a high order and yet carrying with it possibilities of enormous political leverage The office of assessor will therefore be much desired by politicians and political organizations, who will have very definite ideas about the kind of incumbents they want; while the individual voters in Chicago and Cook County can have no means of knowing the administrative fitness or the personal and political affiliations of candidates for this office. It may be assumed, therefore, that if the office is left to popular election, the candidate and organization that can finance the most picturesque campaign and make the most liberal promises of jobs and tax reductions will ordinarily be in control of the office.

Under these conditions, to suggest that the assessor be appointed by the President of the County Board, who must necessarily represent some political organization, may seem like flying into the fire that we are trying to avoid. The difference lies exactly in the fact that the President of the County Board *does represent his political organization* openly and publicly; and in the minds of the public both he and his organization will be

responsible for assessment results. The responsibility is fixed, not merely on an individual, who may not worry greatly about it after a profitable term of office, but on a whole party organization which must keep going permanently. Under a system in which a given party organization must carry entire responsibility for the appointment and conduct of the assessor, abuse of the office beyond a certain point will become a liability which the organization can not afford to carry. Just where that point is depends upon the state of public opinion; and the saving thing about public opinion is that, with all its shortcomings, it grows with exercise. Given some definite and available point upon which to exercise itself, the demands of public opinion are likely to become increasingly audible.

Furthermore, a responsible organization will not only be obliged to take cognizance of hostile public opinion, but will sometimes find it good politics to capitalize on an honest and capable administration of this office. An elective assessor, proceeding on his own responsibility and carrying his own political risks, will rarely find it to his interest to make an entirely honest and impartial assessment. But there will frequently be times when the appointment of an able assessor, for the purpose of making such an assessment, can be capitalized to the credit of a political organization, without exposing the organization itself to the odium of refusing personal and political favors.

On these grounds, there is much reason for believing that in Cook County there should be a single assessor; that this assessor should be appointive; and that his appointment should be tied up to some responsible representative of the county government, such as the President of the County Board.

3. Review

The organization of the reviewing function is the one most difficult problem in the whole field of assessment organization. The discussion of the situation in Chicago during the past three years has given rise to a variety of suggestions, the worst of which was that of the Joint Legislative Revenue Committee in 1929. Assuming the political impossibility of abolishing the present Board of Review, the Committee suggested diluting its effects by adding to its membership the elective County Assessor and a member of the County Board of Commissioners, making a reviewing board of five members.[5]

The Joint Committee on Real Estate Valuation suggested a board of three, including of course the County Assessor himself, one member to be appointed by the President of the County Board, and one to be appointed by the County Treasurer.[6] The point of danger here lies with the appointment by the County Treasurer. Membership of the County Treasurer himself would be less dangerous, because his position, officially and politically, is sufficiently prominent at least to fasten upon him in the minds of the public responsibility for the results of his own actions. It is the "lightning-rod" theory of government—the homely theory that safety lies in attaching responsibility to officials who stand out so prominently that the lightning cannot miss, if things go wrong. Trying to attach responsibility to a mere appointee of the County Treasurer is getting too far out on the limb again and giving the County Treasurer too much room for *alibi*.

It was for the latter reason that the writer suggested[7] a similar composition for the Board of Review,

[5] Sen. Bill No. 340, 56th Gen. Assembly, p. 33.
[6] *A Study of Assessment Organization and Legislation—Report II*, p. 22.
[7] *The Tax Situation in Illinois*, pp. 83–84.

but including the County Treasurer or County Clerk himself as the third member. It will be conceded that the *ex-officio* element represented only an effort to select the least of evils in a poor range of practical choices.

Real Nature of the Reviewing Function

But discussion throughout the state has now gone far enough to make it possible to consider the more fundamental elements involved in the problem. The underlying error in the growth of reviewing organizations in the United States for years past has rested on two things: First, an unwillingness, for traditional and political reasons, to abolish existing offices and official machinery, however antiquated and ill-adapted they may have become; and second, a perennial instinct to seek improvement in governmental administration by superimposing additional offices, boards, and departments upon existing ones. The Joint Legislative Revenue Committee's recommendations that a State Assessor be superimposed on the present State Tax Commission (already consisting of five members), and that a County Assessor and another member (a fifth member) be superimposed on the present Board of Review,[8] are examples of the kind of governmental "reorganization" that has gone on in the United States for the past fifty years.

It has been fostered by politicians themselves for the deliberate purpose of increasing the number of office-holders. The more "vacant chairs" with each outgoing administration, the merrier the "wake." But it has proceeded just as often from a sincere but unintelligent effort to improve a bad situation. Some obscure official takes occasion to profit by his obscurity, and, as a result, another official or board is

[8] *Report* of March, 1929, p. 90*ff*.

created to supervise him. Between them both things go wrong again, and a third board is created to supervise the second, and so on.

In the field of assessment this pyramiding of hierarchies has had two very different results, both entirely logical. Where boards of review have been made up of *ex-officio* membership, their sphere has tended to become a very minor one, exercising some general supervision over the department of assessment but interfering with its work only in extreme situations. This is the typical status of the reviewing organization in most sections of the United States at the present time. In twenty some states, the reviewing function is conferred upon the Board of County Commissioners or some corresponding body, or a combination of representatives of the county board with other officials. In nine states, the reviewing function in large cities is placed with a small ex-officio board, including one or more of the following officials: The Mayor, Assessor, City or County Treasurer, Comptroller, Auditor, County or City Clerk, President of City Council, President of Board of County Commissioners, Corporation Counsel, and Probate Judge. In a half-dozen cities the reviewing function is lodged with representatives of the city council in conjunction with other officials.

On the other hand, in the few cases in which boards of review or equalization have been composed of independent, elected officials and have been given final authority over assessment, they have tended to usurp the actual functions of the assessors, and to exploit their office the more unscrupulously because responsibility for the assessment still lies nominally with the assessors. This type of board developed not infrequently in the early days of boards of review and boards of equalization; so far as the writer knows,

Cook County is now the only habitat of its survival.

Between the two things, usurpation in the one case and inactivity in the other, the latter is distinctly the lesser evil, because it leaves the major responsibility where it properly belongs, with the Assessor or Board of Assessors. But it may be asked why it is necessary to put up with either. If the review of assessments is a legitimate function, it ought to be possible to provide a type of organization that can do it legitimately; and the first step toward that end will consist in forming a clear conception of just what this function is.

We have observed above that the assessment of property is purely an *administrative* function. The assessor is not concerned with the wisdom of property taxation as such, with the rates of taxation, or with questions whether one type of property ought to be taxed more or less than another. His business is to ascertain certain facts, namely, the values of properties in his jurisdiction, and to report these facts to the proper official for the extension of taxes.

With almost equal positiveness it may be said that review is a *judicial function*, the purpose of which is to secure justice between two parties, the assessor and the property holder. And this is true, whether the procedure follows the form of ordinary court procedure or not; whether the reviewing body acts only on complaint of a taxpayer or on its own initiative; whether it considers an individual case or a group of cases; or whether the parties concerned are actually present in person or not. In any case, the essence of the action consists in granting or refusing relief to a property holder who considers himself injured by the official action of the assessor.

This is such a far cry from the present status of the Board of Review in Cook County that it will be helpful

to recall to mind that originally all such complaints did actually go directly to the court. Complaint against an action of the assessor became immediately the subject of judicial action by a regular court. There was originally no idea of any intermediate purgatory between the action of the administrative official at one end and judicial review of that action at the other.

The injection of this intermediate process was occasioned by the growth of population and wealth and the multiplication of tax cases to a point where the regular courts, under the limitations of formal judicial procedure, could no longer handle them. Boards of review were created with the idea of hearing complaints more informally and expeditiously, disposing finally of as many cases as could be adjusted in this way, and so greatly reducing the number to be heard by the courts. They performed largely the function of examiners or masters in ascertaining the facts that would otherwise have to be presented in court. They made adjustments on their own authority, and the great majority of such adjustments were ordinarily accepted by the litigants. But they were originally thought of largely as "settlements out of court" and were specifically intended to relieve the courts of that amount of litigation.

This is still the nature of the reviewing function, however much it has been cluttered up with politics and other things; and it would be vastly better if this fact were frankly recognized and the organization shaped with a view to performing this function.

This would mean that the Board of Review, instead of careering around as a freebooter, unattached to any superior authority, should be subjoined to that court which has jurisdiction over tax cases. In Cook County this is the County Court. And there is no compelling

reason why the two members of this board, other than the County Assessor himself, should not be appointed by this court and be thought of as *examiners* for the court, subject to the authority of the court, for the purpose of hearing complaints, making adjustments, and reducing the enormous amount of tax litigation that now threatens to swamp the County Court. If it would help to dispel the erroneous ideas and the unsavory atmosphere that have gathered about the Board of Review, we may call them a Board of Tax Examiners; and we shall then have at least an accurate designation for a specific function, which is urgently needed, but one which has not been performed in Chicago for many years.

It is realized, of course, that this involves too violent a break with the present organization of the so-called "reviewing" function in Chicago to commend itself quickly, and that it may be far outside the orbit of present political possibility. But new planetary orbits in the solar system are occasionally discovered, and new orbits of political possibility will eventually be discovered in Chicago. In the meantime it will do no harm to think clearly about these problems.

In discussion of this general line of suggestion, the objection most frequently made is that this would impair the character of the court by loading it with "extraneous" appointments and functions, similar to the granting of liquor licenses by the courts in the old days of "high license" and "low license" judges. To this it cannot be said too emphatically that this is by no means loading *extraneous* matters on the court; it is actually bringing back to the court one of its own offspring that has wandered far from home and has committed a vast amount of depredation while so doing. The County Court now has jurisdiction in tax cases and should in self-defense welcome an organization of

the reviewing function that will materially reduce the amount of tax litigation coming before it.

In any case, it must be recognized that if we do not move in this general direction, the other alternative is to move in the opposite direction, namely, that of minimizing the sphere of the Board of Review. This would be represented by a board composed of the County Assessor, the County Treasurer or County Clerk, and a member appointed by the President of the County Board, with an effort to concentrate authority and responsibility as fully as possible upon the County Assessor.

It has been suggested that assessment and review be concentrated in a single board—a Board of Assessment and Revision, to be appointed by the President of the County Board, one member of which would be designated Assessor or Superintendent of Assessments and be considered the administrative official of the Board, while the two other members would act largely in an advisory and reviewing capacity. This follows, in a general way, the system in New York City, with its Board of Taxes and Assessments, except that in New York this board is appointed by the Mayor. This would secure concentration of responsibility in the appointment of the board, but with serious lack of clarity in the functioning of the board itself. It would provide no recourse or appeal from the Board of Assessors except to the courts.

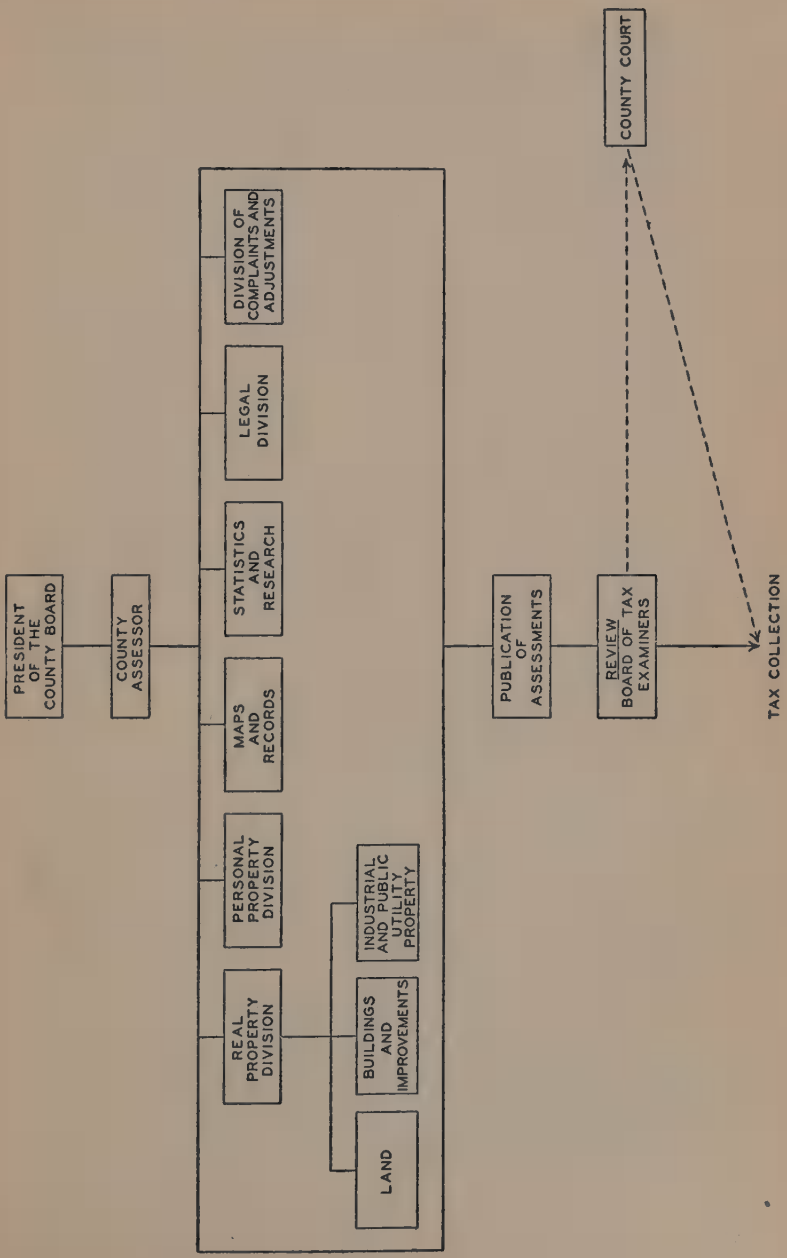
Summary of Assessment Organization

In summary, then, it may be said that if the reorganization of our broken-down tax machinery were handled as a business proposition, it would be based on two sets of considerations: first, an analysis of the elements that have caused the breakdown, such as that presented in preceding chapters; and second, the

utilization, as far as possible, of any more efficient types of organization that have been developed in other cities. If a thoroughgoing, business-like reorganization were worked out on this basis, it would almost necessarily follow the general lines suggested above, however much its specific details might vary. Such a type of organization is set up in the chart below. It is conceded that this goes farther in the direction indicated than most groups have in the past considered politically possible. But after all, if Governor Emmerson is willing to assume the leadership the situation has thrust upon him, if the present Legislative Revenue Commission is serious, and if the various groups working for revision of the tax system are halfway in earnest about it—there is no reason why such a reorganization should not be the most "politically expedient" thing on the horizon.

The County Assessor is here represented as appointed by the most outstanding official of the county, namely, the President of the County Board. If there is any *more outstanding* official, the responsibility should be "hung" on him. Such appointment might require the consent of the County Board, but it should be primarily the responsibility of the President of the Board himself; for the moment the appointment is left to the jurisdiction of a body as large as the County Board, the definiteness of responsibility is lost.

The operating divisions of the assessment organization indicated here are only suggestive. They are subject to considerable variation to suit administrative necessity or convenience, but these functions must be adequately represented somewhere in the administrative organization. In many places it has been unnecessary to set up separate divisions of land and buildings, and the work of assessment has been divided


PRESIDENT OF THE COUNTY BOARD
COUNTY ASSESSOR
REAL PROPERTY DIVISION
LAND
BUILDINGS AND IMPROVEMENTS
PERSONAL PROPERTY DIVISION
INDUSTRIAL AND PUBLIC UTILITY PROPERTY
MAPS AND RECORDS
STATISTICS AND RESEARCH
LEGAL DIVISION
DIVISION OF COMPLAINTS AND ADJUSTMENTS
PUBLICATION OF ASSESSMENTS
REVIEW BOARD OF TAX EXAMINERS
COUNTY COURT
TAX COLLECTION

on a territorial basis. The former is suggested here, because the movements of land-values in Chicago and Cook County have been so rapid and the "shifts" of value so erratic and violent, that the whole subject of land values should for some years at least receive the undivided attention of a special division of the staff. This field of work, if carried on systematically for a number of years, would be of inestimable value to property owners and business groups, as well as to the taxpayers of the county. Needless to say, neither a real estate expert nor a construction engineer is adequately equipped for the valuation of industrial, railroad, and public utility property. This work requires the equipment of an industrial engineer.

The "Division of Statistics and Research" is not indispensable; but often such a department has contributed more than anything else toward stimulating intelligent policies and developing a high *morale* on the part of an assessment staff. The Division of Complaints and Adjustments is intended not merely to give information, to explain assessments, or to "sell" the assessment to the public, but to discover actual errors and inequitable assessments and recommend corrections and adjustments to the Assessor or the proper department. Such a division will do three things: it will tend to improve the assessment itself; it will improve the relations between the Assessor and the public; and it will greatly reduce the number of complaints that ever get as far as the Board of Review.

Publication is placed—where it belongs—after completion of the assessment by the official assessing body. *This is the assessment* and should be so considered. Review is a supplementary judicial process, to be exercised in exceptional cases. Changes made by the Board of Review should certainly be made public,

likewise, under statutory requirement to that effect, as a double guarantee against political or ulterior practices. Under the system of assessment here set up, the number of cases reviewed and the consequent publication would be a small matter. But publication of the primary assessment should be made for two reasons. In the first place, it will keep the Assessor and his staff under the wholesome influence of public scrutiny and criticism of their work. In the second place, if the work of the Assessor is honest and efficient, publication of his assessments will afford almost an invincible bulwark against unwarranted revision of them by the Board of Review. Publication at this point is like a battery of artillery, with guns trained from a commanding position upon both the assessment and the review.

The reviewing function is here lodged with a Board of Examiners, two of whom are appointed by the County Court. The third member must be the Assessor himself, in order to insure his representation in all the deliberations of this board. The function of this Board is here represented as an informal judicial process, for the purpose of hearing and adjudicating complaints between taxpayers and the Assessor and for eliminating as far as possible the necessity of going into the County Court.

In addition to the factors of safety afforded by (a) definite responsibility for the appointment of the Assessor, (b) the definite administrative responsibility lodged with the Assessor himself, (c) the restraining and stimulating influence of publication of assessments, and (d) the corrective of a genuine judicial review, this administrative organization would include, what is not represented on the chart, the further guarantee afforded by more definite powers of supervision on the part of the State Tax Commission.

Here is a clean-cut, unified assessment organizaton that would go about as far toward making good assessment inevitable as the present system makes it impossible. The present system does not make good assessment absolutely impossible, and the organization outlined would not make bad assessment impossible, if the taxpayers of the county were determined to have that kind of assessment. But if they want some other kind of assessment, such an organization as this provides the means for securing it at a minimum cost and a minimum risk.

The various elements of this organization are capable of some modification without entirely destroying its effectiveness. But every weakening of the structure of the assessment organization will impair the quality of the results secured.

CHAPTER XIV

REMEDIES IN THE FIELD OF NEW TAX LEGISLATION

CHICAGO will never be able, even with the utmost intelligence and determination, to solve its own tax difficulties except as it cooperates with the rest of the state in working out a solution of the tax problems that confront the state as a whole. We may hope that Professor Merriam is right in looking forward to the time when we may develop "city-states," with a large degree of self-determination in their internal social and economic policies. But for the present and for a long time to come, Chicago and the rest of the state are going to be in the same boat; and in tax matters it has become a very leaky, crippled boat. It behooves Chicago and the State to paddle together until both are out of danger.

In view of the fact that the tax system has undergone so little change in the past hundred years, it will be understood that any adequate solution of the problems of both city and state will involve a considerable amount of new legislation. The remedies that lie in this field will be the subject of the present chapter.

These measures will not be taken up in their order of importance, however; if they were, the necessity of a Constitutional Amendment might be given priority over everything else. But before taking up this larger subject, two factors directly associated with the process of assessment will be considered. These are the problems of quadrennial reassessment and of full value assessment.

The Quadrennial Limitation

A system of general reassessment once in every four years was eminently adapted to agricultural communities, where the amount of property was not so large but that it could be inspected and appraised within the course of a few months, and where property values were relatively stable over considerable periods of time. Under modern conditions this system has two unfortunate consequences.

In the first place, in a county like Cook, a statute that requires the reappraisal of 1,300,000 parcels of real estate, with a total value of twelve billion dollars, in the course of a few months in a quadrennial year, imposes well nigh an impossible task. The same thing is true to only less extent in all the wealthier and more populous counties of the state. The obvious impossibility of completing the work properly within the time allowed is itself conducive to carelessness and indifference, and to some extent compels assessors to fall back upon the easy device of merely copying forward assessments from previous years.

In the second place, the enormous amount of work to be done every four years means, in practice, that after three years of comparative idleness the offices of the Board of Assessors are suddenly filled with an overcrowded staff. Such a staff makes a particularly convenient receptacle for political hangers-on and proteges of every variety; and even under the most honest administration must necessarily be an untrained and inefficient staff. This, at its best, is an extremely inefficient way to carry on an important government service; but when the reassessment also coincides, as it does in Chicago, with the years of the mayoralty elections, it creates a vicious juxtaposition.

It is perhaps not necessary to repeal the provision for revaluation at least once in every four years. But

the *limitation* of revaluations and adjustments to that year should be repealed. Property valuation is in its nature something which requires continuous attention. This does not mean that we must have an annual reassessment; some types of property and some districts may remain relatively stable in value for long periods at a time. On the other hand, some sections of a city, where active development is going on, may undergo a revolution of values in a year or two. It should be incumbent upon assessing officials to keep their valuations reasonably up to date; and they should be free to develop the permanent staffs and the continuous processes of accumulating information that are necessary in order to do this.

Full Value Assessment

Another element which, if continued, will always interfere with equitable assessment is the now accepted practice throughout the state of "aiming to assess" at some hypothetical fraction of full value. How wide these assessed fractions may be of the actual facts, has been shown in previous chapters of the present study.

Theoretically, it makes no difference at what level property is assessed, provided all properties are assessed at approximately the same level. In actual practice, it makes a vast difference. It makes a difference, in the first place, because no one knows (not even tax officials themselves) what this hypothetical level actually is; and wide variations from this level may occur without taxpayers having any means of discovering it—except at those long intervals when laborious studies like the present one happen to be made.

It makes a difference, in the second place, because a deviation of 33 1/3% or any other amount from a

general level of 30% of full value is much more likely to get by without protest than a similar deviation from a general level of 90%. If two apartment buildings, with an actual value of $100,000 each, are assessed at an *average level* of 30%, or $30,000, with a deviation of 33 1/3% from that level, this will mean an assessment of $40,000, for one and $20,000 for the other. This, as a matter of fact, would be less than the actual deviation of assessments in Chicago in any year embraced in the present study prior to the reassessment. It stands a good chance of getting by in the greater number of cases without protest, because the injured property holder, even if cognizant of his over-assessment, realizes that it will be very difficult to prove that others are not assessed at a similar level; and because he likewise realizes that he is actually assessed at much less than the full value of his property and may consider it advisable to remain discreetly silent. In any case, the difference between his own and his neighbor's property, even if he knows the facts, is after all only $20,000 on a $100,000 property. If these same buildings were assessed with exactly the same deviation from uniformity but at an average level of 90% of full value, they would be assessed at $60,000 and $120,000! Needless to say, this would not "get by."

It is highly important, therefore, in the interest of honest and equitable assessment, to provide for assessments at approximately full value, as soon as more urgent problems are disposed of. This can be done in the same way that a first step in that direction was taken in 1927, by providing that in a given year all tax rate maxima shall be that proportion of the rates of the previous year which, with a full value assessment, will yield approximately the same amount of revenue.

Such a provision, it will be granted, would involve considerable hardship if at the time of its adoption there should still be wide variations in the level of assessment in different counties and districts. If the general level throughout the state were 33 1/3% and it were desired to transfer from a fractional to a full value basis of assessment, this would mean converting existing tax rates into one-third of their previous amount. If, at the time, there were counties with assessments at a 60% level, the application of the reduced tax rate to a full value assessment would still yield only 56% of the previous revenue.

Before this step is taken, therefore, the State Tax Commission should bend its energies toward bringing about as nearly as possible a uniform level of assessment, *as between counties and districts*, throughout the state. For purposes of the step under consideration, variations among individual assessments within a district are not material. If the Tax Commission can bring about approximate uniformity among counties and districts, the change from fractional to a full value basis of assessment can be made with a minimum of disturbance.

The Problem of Personal Property Taxation

It will never be possible to have honest and equitable assessment under the present provisions for the taxation of personal property. This is not because there is anything inherently inequitable in the assessment and taxation of personal property at the same rates as real estate, if that can be done. It is sometimes urged that if personal property *were* assessed at the same rates as real estate, it would mean confiscation. But it would not be confiscatory, if *all* property were assessed at full value, or if *all* property

were assessed at the same portion of full value, whatever that might be.

If stocks and bonds were assessed at 30% of full value and taxed at 5% (approximately the present rates of assessment and taxation of real estate in Chicago), this would be equivalent to a tax of 1½% upon the full value of the security. In the case of a 5% bond, this would take nearly a third of the income, leaving the investor a net return of 3½%, out of which to pay income taxes and investment expenses. This would be a hardship indeed. But it is no less a hardship when a farm is assessed at 30% of value and taxed at a rate equivalent to 1½% upon actual value—when the farm yields the owner probably much less than a 5% return. And if the application of any such rates to securities would discourage the holding of securities, it is equally true that the application of such rates actually does discourage the building and owning of homes and many other highly desirable types of property. The owners of homes and farms have become more accustomed to it—if that makes it any more comfortable; it does not make it less "confiscatory" in the one case than in the other.

Furthermore, if all property, including intangibles and other personal property, were assessed equally, the total amount of property over which taxes could be spread would be greatly increased and the tax rates correspondingly reduced. There is nothing to indicate that under such conditions the owners of intangibles could not afford to pay these tax rates as well as anyone else. It is true that taxation of intangibles represents double taxation of the same property, to the extent that these securities represent real estate and other tangible property already taxed. This is a reason for not taxing *both* real property and the securities that represent it, but it affords no reason for always taxing the one rather than the other.

The difficulties of personal property taxation, therefore, grow not out of any inability on the part of owners of personal property to stand the same rates of assessment and taxation as other classes of property owners, but out of the inability of the present system of taxation to reach large classes of personal property with any degree of effectiveness or generality. This applies particularly, of course, to intangibles. There are almost as many ways of concealing investments and securities as there are of losing them, and the past year will sufficiently illustrate both classes of possibilities. To cling longer to the superstitution that any assessor can go around Chicago and ascertain the money and securities held by, for, or on account of a million owners is little short of childish.

The results are worse than mere failure to reach this property. In the first place, since assessment in the case of ordinary taxpayers depends so largely on voluntary reporting, the tax becomes a tax on honesty and offers a bonus for successful dishonesty. We hear much about unenforcement and the development of law breakers under various forms of sumptuary legislation: all the law breakers under prohibition would scarcely make a frog-pool in Lake Michigan compared to the number of lawbreakers developed under the present personal property tax in Illinois.

In the second place, the present personal property tax places in the hands of tax officials almost autocratic powers for the promotion of personal and political ends. With real estate assessments down to a level of 35%, the tax rates in Illinois have risen until they now range from 4 to 6%. In Chicago they average closely around 5%. These high tax rates give assessing officials an unusually wide range of arbitrary power in the assessment of personal property. At one extreme, they can confer outright exemption for large

amounts of personal property by simply failing to assess it; at the other, they can penalize a too independent taxpayer, who happens to be the owner of any considerable amount of personal property, by imposing a rate of taxation that will bankrupt him in competition with more favored competitors.

What greater control over a competitive situation could any monopoly wish than to have the power to exempt the capital and investments of one group entirely from taxation and to impose a tax of 5% on another? A 10% tax wiped out the issue of bank notes by the state banks; a 5% tax would probably have been sufficient; and that is about the tax rate that assessing bodies, under our present personal property tax, now have the practical option of levying or not levying upon capital stock and intangible property. The authority thus conferred increases enormously the arbitrary powers possessed by assessing officials, makes the control of these offices the object of greater effort on the part of political organizations, and thereby contributes very materially to the conditions described in previous chapters.

From every standpoint, therefore, that of honest assessment, of fairness to the various groups of property holders, and of adequate sources of revenue, revision of the system of personal property taxation is imperative. Probably most students of the situation in Chicago and Illinois would consider it second only in importance to the administrative reorganization, without which any other legislation will prove futile. It has been left to this point in our discussion not on account of any lesser importance, but because it involves a constitutional amendment and new tax legislation, in the form either of special treatment of intangibles or of an income tax or both.

The Constitutional Amendment

The present system of taxing personal property was imposed by the uniformity clause of the constitution, adopted in substantially its present form in the constitution of 1848. It requires every one to pay taxes in proportion to the value of "his, her, or its" property, regardless whether "his, her, or its" is a cow or a skyscraper. But if we had been living in 1848, we should probably all have voted for it; for it represented an effort to redress serious grievances, growing out of the practice of granting extravagant subsidies and liberal exemptions to the early railroad and canal interests and other corporations. This extravagance on the part of the state and local governments had contributed largely to the financial crisis of 1837 and the "hard times" following it. And the efforts of the railroads and other corporations to secure these valuable grants had led to an unbelievable amount of corruption on the part of state legislatures and to a period of unscrupulous promotions and dishonest practices on the part of favored corporations.

In most of the eastern and midwestern states, financial difficulties and growing criticism had compelled the abandonment of these policies of outright subsidy on the part of the state governments. But these corporations were still largely exempt from taxation either by charter or by statute.

Meanwhile, partly in consequence of these policies of liberal subsidies and exemptions, the Middle West had witnessed a spectacular development of railways and canals, which in turn had stimulated a rapid settlement of agricultural communities throughout this region. Most of the early settlers in these communities were in debt, having borrowed money to equip their farms or to tide their families over the

period of waiting for farms to become productive. Their distance from markets, currency troubles, wildcat banking practices, and not infrequently reckless participation by the farmers themselves in financing railway and canal promotions in their own neighborhoods, prolonged this period of indebtedness. Eventually most western agricultural communities found themselves struggling under heavy burdens of mortgage indebtedness, on which they were paying exorbitant rates of interest.

Low prices of farm products and frequently recurring "hard times" in the period of the 40's added to their difficulties. And when, in addition to all of these hardships the farmers found themselves subjected to heavy taxes, largely in consequence of previous policies of extravagant public aid, a widespread resentment developed against the corporations which had been the beneficiaries of both public and private generosity, and which were now held responsible for many of the troubles of the time. Out of these conditions grew what at the time was considered a "radical" movement for the taxation of railway and other public service corporations upon the same basis as that of individuals.

In this movement, however, the railways were not the only objects of resentment. Other groups, including particularly the banks and mortagage-holders, were believed to be escaping a just share of taxation. The movement developed consistently, therefore, into a demand for the "uniform" taxation of *all forms of property*.

But the railways were the particular objects of resentment throughout the agricultural states; and as the movement went on, constitutional provisions and statutes made this clear with increasing frankness. A convention in Waukesha, Wisconsin, in 1854, had

resolved that "we are in favor . . . . of just and equal laws of taxation, placing on the same level *the railroad* and the working farmer."[1] And a resolution offered in the New York Legislature four years later indicated the growing feeling by ironically proposing a constitutional amendment to abolish the governor and legislature of the state and to substitute in their places the president and board of directors of the New York Central Railway. A New Hampshire statute of 1867 specifically stipulated that hereafter railway property should be taxed "the same as other property." The Iowa Code of 1873 declared almost irately that all *railway* property should be taxed "at the same rates, by the same officers, and for the same purposes as the property of individuals."[2]

In California, in 1873, two years after both Republican and Democratic state conventions had declared that "the subsidizing of railroads or other private corporations . . . . is productive of gross corruption and abuse,"[3] a farmers' party adopted a platform demanding "that all property, including solvent debts, as well as *railroads and railroad property*, should be taxed in proportion to its actual cash value."[4] The Missouri constitution of 1875 not only provided that taxes should be uniform, but—to leave no doubt about the meaning of "uniformity"—specifically provided that *all railways* should be subject to taxation for state, county, municipal, and other purposes.[5]

[1] *Waukesha County Democrat*, October 11, 1854; quoted by Snider, *Taxation of Gross Receipts in Wisconsin*, American Economic Association Publications, Vol. VII, p. 528.

[2] Code of Iowa, 1873, sec.1322; continued as sec. 4554, Compiled Code of 1919.

[3] W. J. Davis, *History of Political Conventions in California, 1849–1892*, Publications of California State Library, No. 1. The language quoted is from the Republican platform; the statement of the Democratic platform was almost identical.

[4] W. C. Funkhauser, *Financial History of California*, University of California Publications in Economics, Vol. III, No. 2, p. 250. Italics our own.

[5] Constitution of 1875, Art. X, Secs. 2, 3, 4, 5, 7.

In Kansas, only a few years after one governor had contemplated Fort Leavenworth as the future capital of the United States,[6] another governor, with the railroads in his mind, was declaring to the Legislature: "Never in the history of the world have any people been subjected to greater abuses than have the people of Kansas for the last five years."[7]

Kansas statesmen have not been conspicuous for understatement of conditions affecting the people of Kansas, but in this case there seemed to be ground for ruffled feelings. Governor Martin, four years later, was more specific, referring to a sleeping-car company as a "colossal octopus" and asserting: "The Pullman Car Company has never paid a dollar of tax in Kansas. The tax-dodging practiced by these wealthy corporations is not only an outrage on the people who are compelled to bear burdens thus shirked, but is insulting to the dignity and authority of the State."[8] On inquiry, it appears that the Pullman Company never did pay taxes in Kansas until the decision in *Pullman's Palace Car Co. v. Hayward*, in 1891.[9]

In other states matters were not greatly different—Michigan extracted $6.45 from the "octopus" in 1901;[10] and it may have been partly in commemoration of this achievement that the people of Michigan erected a unique memento to former Governor Pingree, in the form of a statue which stands in Grand Circus Park, Detroit, bearing the inscription:

> "He was the first to warn the people of the great danger threatened by powerful private corporations and the first to

[6] Governor Harvey, Message of 1869.

[7] Governor Glick, Message of 1883.

[8] Report of Attorney General, 1887–88.

[9] 141 U.S. 36. The Kansas case was argued with the better known case *Pullman's Palace Car Co. v. Pennsylvania*, 141 U.S. 18 (1891).

[10] *Second Report, Board of State Tax Commissioners*, Michigan, 1901–02, pp. 77–78.

> awake to the great inequalities in taxation and to initiate steps for reform."

Governor Pingree was not exactly the first either to awake to the inequalities of taxation or to initiate steps for reform, but he was one of the few governors who have discerned the possibilities of making equitable taxation a successful political issue.

Equitable taxation at that time meant "uniformity"—uniformity in property taxes, because property taxation was practically the universal form of taxation in the northern and western states at that time. But uniformity had no reference to any future prohibition of other forms of taxation—income taxes, inheritance taxes, and so forth—that might later be developed. These things had not been proposed at that time. In fact, there was no need for them. They were not in the picture at all, and never entered the minds of the earnest advocates of uniformity. Uniformity meant abolition of the previous subsidies and tax-exemptions that had been granted to the railroads and other corporations; and every consideration of fairness and equity justified such a demand at that time.

But now all this is past. The railroads are amply regulated by the Interstate Commerce Commission, by some forty-eight railroad and public utility commissions, and by innumerable courts and departments of government. There is no immediate danger of legislation at Springfield granting a million acres of land to the Illinois Central or exempting the Rock Island Railroad from taxes for the next 50 years. The conditions that justified the uniformity movement in the latter half of the 19th century are past, and the outrageous "radicals" who led that movement have gone to their deserved reward.

It is unfortunate that they have, for we need them now. They would probably be the first to demand repeal of the uniformity clause, which now stands as a barrier in the way of any effort to secure the honesty and justice in taxation that they stood for. It recalls the triumphant exclamation of the Roman orator after Caesar's victories in Gaul: "Now let the Alps sink. The gods raised them to protect Rome; they are no longer needed." When the Romans were able to take the offensive against their enemies, the Alps became an obstacle. The revolutionary changes in Illinois since 1848 have put the old uniformity clause in much the same position as the Alps.

The irony of this situation will be appreciated when it is recalled that this clause was originally directed against the railroads; and yet no single class of property holders have so frequently and so successfully availed themselves of the protection of the uniformity clause as the railroads themselves. The history of the uniformity clause in the courts, from the Burlington case in 1859[11] to the Mobile and Ohio case in 1928,[12] has been largely the history of successful railroad litigation against tax assessments.

The realization of these facts has led to the abandonment or modification of the uniformity clauses in some thirty states and to urgent demands for their repeal in all of the states that still retain them. The realization of the same facts for some years past in Illinois has led many people to advocate repeal of the uniformity clause on grounds of ordinary honesty and justice. The demand for repeal at the present time, however, rests not merely on such theoretical grounds, but on the hard rock of deflation—deflation particular-

[11] *Chicago, Burlington and Quincy Railroad Company v. Ferry*, 22 Illinois 34.
[12] *Mobile and Ohio Railroad v. Schnipper et al.*, 31 Fed. (2nd) 587.

ly in two fields, agriculture and city real estate. In any period of deflation, the rigidity of the general property tax, with the uniformity requirement, necessarily has the effect of *inflating* the taxes of the very classes of property that have suffered the most acute *deflation*. This has been the situation of the farmers since 1921 and is now the situation of real estate owners in general. The representatives of these two fields are, in effect, only asking for some deflation of the constitutional provision which has unwittingly become such an agency for inflating their taxes. To attempt longer to derive 70% of state and local taxes from these two deflated industries is very much like driving with two flat tires. Is it any wonder that the Illinois tax system is becoming a very bumpy, rattly machine?

This, in general, is the genesis of the present demand for repeal of the uniformity requirement. Most tax students feel that the wisest and fairest method of doing this would be simply to repeal the provision that all property must be taxed in the same way and at the same rates, and leave the determination of specific forms of tax legislation to the Legislature and the people of the state. But the form of the amendment to be submitted to the voters of the state at the coming election has already been drafted by the Special Session, and its terms have been discussed in the preceding chapter. With the limitation of the State's share in any income tax that may be adopted to 15% of the proceeds (except by a two-thirds vote), the proposal has gone as far as it could possibly go in assuring protection to Chicago and other cities. And while this is entirely inadequate as a permanent provision for the allocation of revenue from an income tax, the amendment will, nevertheless, make it possible to shift a part of the crushing burden from farm property and real estate to other forms of tax-paying ability,

and will make it possible to substitute some practicable form of taxation in place of the present impracticable and dishonest system of personal property taxation. Even the distribution of proceeds as between city and country or between Cook County and the rest of the state is a minor matter in comparison with the opportunity to get rid of the fundamental injustice and dishonesty in the present system.

After all, we have suffered sufficiently from rigid constitutional provisions which were suitable for the times when they were adopted but which permit of no adjustment when times and conditions change. No one can foresee the social and economic changes that will take place in his own life-time, to say nothing of the life of two or three generations after him; and with all the development of "fore-casting," no one can yet "forecast" what will be the most suitable types of taxes for Illinois in 1950 or 1960. The particular methods for raising those taxes can well be left to the people who will have them to pay. We are going to leave them some hundreds of millions of state and municipal debts to pay, without any discretion on their part; the least we can do is to leave them some discretion in working out their own theories and methods of paying them. And in the meantime, if we will concentrate our own efforts upon adjusting the tax system, not to any theory, but to the actual facts of the present situation, we shall have our hands full for some time to come.

Taxation of Personal Property under Revised Constitution

With the adoption of a constitutional provision, guaranteeing reasonable freedom to the legislature and the people of the state—whether that comes now or

ten years from now—we shall then be confronted with the problem of determining the most practical and equitable method of taxing personal property. This problem has been encumbered with a number of unnecessary complications, which it will be well to eliminate before taking up the really difficult elements in the problem.

Forms of Personal Property that should still be Subject to Regular Property Taxes

In the first place, "personal property" is not a homogeneous class that can simply be lumped together for purposes of legislation, as it has been lumped together in much of the loose discussion of the subject. There are many forms of personal property which, from the standpoint of tax-paying ability and of ease of assessment, are not in any essential way different from real estate and property in general. These would include, for example, railway rolling stock and equipment, public utility equipment, industrial machinery, livestock, and most forms of tangible property used for business purposes. No one would attempt to distinguish between the tax-paying ability of these forms of property and that of real estate; and so far as assessibility is concerned, it is certainly easier to put a value on the rolling stock of a railroad than on its right of way and roadbed; and it is easier to place a value on any of the ordinary types of automobiles than on the homes and apartments in which their owners live. As long as property taxes are the chief source of revenue, there is no reason why these forms of "personal" property should not be subject to the same taxes and at the same rates as real estate and other property.

Forms of Personal Property that should be Separately Classified for Taxation

At the other extreme, there are forms of property that are "personal" in a social as well as economic sense, such as articles of dress and ornament; property easily concealed such as money, watches, and jewelry; property remote from any form of commercial value such as heirlooms, some works of art and other personal belongings. These forms of personal property cannot be subjected to any regular form of assessment.

Certainly no one will contend that articles of dress and ornament, money in one's pocket, watches and personal belongings can be reached by any ordinary process of assessment. Household furniture could be assessed under a system of sufficiently rigid espionage and would presumably be a rough index of the general financial status of its owner. But as a matter of fact, it never has been assessed with any pretense of generality and, under any system of administration conceivable in this country, never will be. At present, in Illinois, the tax on household furniture is a barbaric example of regressive taxation, under which it frequently happens that the occupant of a five-room apartment is assessed at $200 and the occupant of a mansion with every kind of luxurious furnishings at only $500 to $1000.

Under any system which attempts to base taxation upon assessment of these types of property, a few conscientious taxpayers will always confide in the assessor, and they will generally be the small property holders. The wealthy owners of such property will escape. The result will be a vicious regressivity in taxes, a penalty upon honesty, a bonus for successful evasion, and all the ingredients for a system of profitable tax racketeer-

ing on the part of any assessor or assessment organization open to such opportunities.

The only common-sense policy toward forms of property that *cannot* be assessed with any approach to honesty and generality is to frankly exempt them from taxation, without further pretense or ceremony. The retention of these forms of property among taxable property at all is only an absurd remnant of a primitive tax; and as long as it is continued, it will be productive of vicious results in tax administration. If, as seems likely, the present form of the proposed constitutional amendment makes impossible the exemption of even a minimum of ordinary personal belongings and household goods, then the next best thing is to classify these forms of property and subject them to the lowest rate of taxation computable.

The Problem of Intangibles

This brings us to the heart of the problem, namely, the taxation of intangible property. Among tax students the general feeling for years has been that these forms of property cannot be discovered and assessed with any approach to generality, and that any tax upon them becomes virtually a tax on the voluntary declaration of a small number of holders.[13] Certainly every device for reaching this property has been tried in the United States at one time or another, from the most rigorous of the "tax-ferret" laws of Ohio and other states down to the most persuasive of modern "low-rate" taxation.

Mortgage Taxes

But while the result of these varied and sometimes fantastic efforts has been almost complete failure, one need not be too dogmatic about it. So far as mere *possibility* is concerned, there are forms

[13] See to the contrary, however, Leland, Simeon E., *The Classified Property Tax in the United States.*

of intangibles which it is possible to reach and tax. It is entirely possible—indeed, it would be perfectly simple—to tax real estate mortgages at their full value on account of the necessity of recording them for legal purposes. This makes it easy to impose a recording tax in connection with the registration of these instruments or to impose the regular taxes on the basis of the information afforded by the records in the Recorder's office. So far as practicability is concerned, real estate mortgages represent a class of intangibles that are most readily assessable and taxable.

But both theoretical analysis and factual studies indicate conclusively that mortgage taxes are shifted in substantial entirety, to the borrowers in the form of higher interest charges,[14] so that such taxes fail completely in their purpose of taxing the *owner* of intangible wealth. And since the borrower is presumably already paying taxes on property underlying the mortgage, the additional tax becomes double taxation of that portion of the property represented by the mortgage.

In the case of the farmer, the homeowner, and the small property owner in general, whose properties are most likely to be burdened with encumbrances, this double taxation becomes particularly oppressive. To tax a farm at its value as real estate and then tax a mortgage on the farm, which represents 50% to 75% of the value of the property, is a complete departure from any principle of uniformity. It matters not that the farm and the mortgage are held by different individuals, who nominally pay different taxes. The only productive asset underlying this property structure is the farm; and out of it must come payment both of taxes levied directly on the farm and of

[14] See *Mortgage Statistics and Taxation in Wisconsin and Neighboring States*, a Report Submitted to the Wisconsin Tax Commission by Thomas S. Adams, in *Third Biennial Report of the Wisconsin Tax Commission*, 1907, pp. 295–414.

interest and taxes on any obligations resting on the farm. If the tax on intangibles were actually enforced, it would mean that those owners of farms, homes, stores, and other property who were able to own their properties free of encumbrance, would pay one tax, while the owners of similar properties, who were obliged to carry mortgages or other encumbrances, would pay taxes twice upon the same property.

Corporate Intangible Values

A second class of intangibles which, while presenting many difficulties, is nevertheless capable of being assessed and taxed, is made up of the intangible values of corporate businesses—variously designated as the value of capital stock, corporate franchise, "corporate excess," and so forth. What is meant, however it may be designated, is that portion of the value of an incorporated business over and above the value of its tangible property.

The taxation of this stratum of value has generally been designated as a "franchise tax" in the statutes and has been sustained by the courts as such. The term and the judicial treatment of it have come down from the period when corporate charters were granted by special acts of the state legislatures and when such charters did convey special privileges—sometimes monopoly grants of great value. Needless to say, incorporation has now become merely a form of business organization available to anyone; and the values built up by a corporate business on the basis of patents, copyrights, contracts, brands, trademarks, reputation, goodwill, good management, and so forth are not different from the similar values in an individual business. In both cases they represent earning capacity for one reason or another. The incorporation of the Ford business did not convert the intangible values already built up into some new kind of "franchise" value.

But while these corporate intangible values are not essentially different in nature from the similar values accumulated by individuals and individual businesses, they are capable of assessment to an extent that other intangible values are not. The reason, of course, is the fact that corporate values are represented by securities which are ordinarily objects of purchase and sale in the securities markets. The total market value of a corporation's securities can be computed, the value of its real estate and tangible property deducted, and the remainder be taken to represent the intangible values. These values may be as tenuous and elusive as any form of value can be; but if the corporation's securities command a market price, this can be ascertained; and if the tangible assets can be located and assessed, the value of the remaining intangible assets can be approximated.

This so-called "corporate excess" method has been applied by state tax commissions in the valuation of railroads and public utilities for more than fifty years. It has been applied to other corporations, with somewhat less success, in states that have specifically authorized the taxation of corporate franchises in this way. And even in states where not specifically authorized by statute, it has frequently been attempted by assessors and tax commissions on the ground that such values represent property, whether associated with public utilities or with other business corporations. In the latter cases, it has generally been enjoined by the courts, who have sometimes been hard put to in sustaining the taxation of these intangible values in the case of one class of corporations while enjoining them in another.[15] Here we are concerned

[15] Cf. *Hart v. Smith*, 159 Ind. 182; *Standard Oil Co. v. Howe*, 257 Fed. 481; *Samish Gun Club v. Skagit County*, 204 Pac. 181; *Utah-Idaho Sugar Co. v. Salt Lake County*, 210 Pac. 106.

only with the fact that these forms of intangible values are capable of being assessed and taxed, if we wish to tax them.

But while these corporate values are theoretically ascertainable, the actual assessment of them is subject to some serious qualifications. In the first place, such taxation is necessarily limited to corporations incorporated, owning property, or doing business in the state; that is, corporations having a *situs* for taxation in the state. The millions of investments held by citizens of the state in corporations outside of the state, but representing income and taxpaying ability on the part of the holders, would be untouched by this form of taxation.

In the second place, in the case of interstate corporations—both outside corporations doing business in Illinois and Illinois corporations owning property and carrying on a large portion of their business outside the state—the problems of ascertaining and assessing tangible assets and of computing and apportioning remaining intangible values are extremely difficult, and are complicated by frequent conflict with the interstate commerce clauses of the Federal Constitution; so that, aside from the railroad and some public utility groups, efforts in this field have met with very meager success.

In the third place, while conceding the possibility of assessing these values, even this concession is based on the assumption of a highly centralized and efficient tax administration in the form of a state tax commission or tax department fully equipped to handle the difficult problems involved. In the hands of local assessors or of the ordinary type of tax commission, the assessment of these intangible corporate values is practically impossible. Our own experience with the corporation "franchise" tax, or corporate "excess"

tax, in Illinois would afford ample demonstration of this fact, if it could be considered a serious experiment at all.

In the fourth place, the methods of assessment applicable to these properties apply in the main only to the larger corporations whose securities are listed on the exchanges and are traded in sufficiently to establish dependable quotations. A large proportion of existing corporations is made up of those whose securities are not listed on the exchanges, and for which it is often difficult to secure records of *bona fide* transfers and prices.

For these reasons, even conceding the possibility of taxing real estate mortgages and of assessing to some extent the intangible assets of corporations, it is the general conviction of tax students that the great bulk of intangible property cannot be reached through any of the ordinary forms of property taxation. Two alternative methods of reaching this form of taxpaying ability have been suggested: (1) the separate classification of intangibles for purposes of taxation and the application thereto of a low rate of taxation; and (2) an income tax.

Low-Rate Taxation of Intangibles

It may be conceded that the application of low-rate taxes has generally had the effect of increasing the revenue yielded, in comparison with revenue previously derived from intangibles under the general property tax. But two things should be kept in mind in this connection.

In the first place, the previous revenue has generally been so slight that increases even of 100 or 200% are still insignificant. Kentucky is commonly considered one of the most conspicuous examples of the successful operation of a low-rate tax. Kentucky adopted

a low-rate tax in 1917. The result after ten years of vigorous effort to enforce the tax (and presumably ten years of increasing wealth in the form of intangibles) was that by 1927 the assessed valuation of intangibles had increased 612%; the revenue therefrom had increased 30%; the actual increase in revenue, in dollars, for the entire state was $562,100!

In the second place, the advocates of low-rate taxes to a large extent base their case frankly upon the argument that this will make the owners of intangibles more *willing* to declare their property. Professor Lutz argues that the rate must be low enough to avoid the "inducements to the owners of such property to evade or escape the tax."[16] And the recent report of the North Carolina special Tax Commission declares: "Bonds, notes, and accounts must be reached largely through the voluntary listing of the owner, a process that may be stimulated by a low rate."[17]

On this it will be sufficient to observe that in the light of experience the only rate that is "low enough" to avoid inducement to evasion appears to be exemption; and the process of stimulating declaration of property by low rates is, in principle, very much the same device that has brought the assessment of real estate in Illinois down to 25 and 30% of actual value. Furthermore, "voluntary listing" of one's property for taxation under any system will vary with the varying degrees of honesty on the part of different taxpayers. A system which accomplishes an expansion of revenue through an expansion of "voluntary listing" must therefore accomplish it at the expense of the relatively *more honest* citizens and the continued exemption of the relatively *less honest*. The number of the relatively more honest may be increased by a low-rate tax. The

[16] Lutz, H. L., *Public Finance*, p. 356.
[17] *Report of the Tax Commission of North Carolina*, 1928, p. 322.

reduction in the price of honesty brings a moral luxury, so to speak, within the reach of a large number of citizens, who could afford only the barest moral necessities under the application of the general property tax rates to these forms of property. But revenue derived from a community in proportion to the possession of *honesty* rather than of *property* is not equitable taxation.

The other alternative, proposed as a substitute for the present personal property tax, is the income tax. But the income tax gives rise to broader problems than merely devising a substitute for the personal property tax, and it will be discussed in relation to these problems.

The Income Tax

The general movement for the adoption of an income tax in Illinois is not based so much upon theoretical grounds or abstract principles of justice in the distribution of tax burdens as upon the urgent necessity of doing something to relieve the pressure of existing conditions. Real estate taxes in some sections have reached almost confiscatory levels. Indeed, this has been the farmer's situation practically since the collapse of 1921, without eliciting adequate sympathy from his more prosperous urban brethren. Urban real estate could stand the mounting burden of taxes while values were appreciating. But with general stagnation in the real estate market and with actual deflation threatening in many sections, the taxes more or less cheerfully assumed in times of prosperity are now becoming crushing burdens. The heavy special assessments levied in the past few years of extravagant public improvements, and levied often with little regard to any actual benefits conferred,[18] have added to the havoc.

[18] See "The Influence of Public Improvements on Land Values," by the

These hardships have fallen with particular severity upon two classes, the farmers and the smaller home and property owners. To the latter, property ownership frequently represents not so much a form of profitable investment as an economic *status*, acquired with some effort and sacrifice. The mounting burden of taxes on real estate is making this *status* more and more difficult to maintain and, for many, impossible. The regressive taxation that results from present methods of assessment[19] still further aggravates these hardships.

But these are not the only classes now in difficulty; for in recent years many owners of office and apartment buildings and other large properties have rapidly been approaching a condition of insolvency, which only the banks and mortgage companies are in a position to appreciate fully. All of this does not mean that public functions should be curtailed or taxes suspended; but it does mean that a system of taxation, under which approximately 70% of the burden rests upon real estate, has been made intolerable by the sheer inability of real estate to continue to carry it. Out of these conditions have grown a variety of scattering demands and heterogeneous proposals.

Low-rate Tax on Intangibles

To many the obvious thing appears to be, if real estate is over-taxed, to transfer a larger portion of the tax burden to personal property; and consequently the efforts of a number of groups have centered about the idea of classification and the application of a low-rate tax to intangibles. The inherent difficulties in the low-rate tax on intangibles have been discussed above, and these difficulties have

author, in *Annals* of the American Academy of Political and Social Science, March 1930, for examples of special assessments levied on property actually injured by the public improvement.

[19] See p. 74 above, and *The Tax Situation in Illinois*, pp. 37 and 44.

been greatly increased by the recent trend of bank tax decisions.[20] But such a tax is at least relatively harmless; and if the state wishes to experiment with it for a few years, it will only add another column to the dreary statistics of taxes on intangibles.

Sales Taxes The sales tax made its appearance after the World War, under the best of social and political auspices; it was vigorously backed by chambers of commerce and business organizations; and for a while seemed likely to sweep the country. West Virginia did enact a small general sales tax at the crest of the movement. But in the years since 1921 both farmer and labor groups have been thoroughly educated by their organizations and journals against the idea of further taxes on consumers and taxes that are likely to add to the already high cost of living.

Outside of these two groups, there is a large aggregate of scattered antagonism to a sales tax, based on grounds of principle, on unsatisfactory experience with the "nuisance" and other excise taxes during the war period, on the difficulties of administering a state as compared with a Federal sales tax, and on historical opposition to "excise" and consumers taxes.[21] And it is the writer's judgment, entirely aside from the merits of the question itself, that anything like a general sales tax is out of the range of practical consideration for the time being.

This still leaves room, nevertheless, for a very substantial development of particular sales taxes, such as the gasoline taxes, in which the tax rests on some obvious and generally conceded element of fitness. In a broad sense, this includes such things as severance

[20] *Merchants National Bank of Richmond v. City of Richmond*, 256 U.S. 635 (1921); *First National Bank v. Anderson*, 269 U.S. 341 (1926); *First National Bank v. Hartford*, 273 U.S. 548 (1927); *Minnesota v. First National Bank*, 273 U.S. 561 (1927).

[21] See *Proceedings* of National Tax Association, 1929, pp. 297–314.

taxes, "luxury" taxes, the cigarette and tobacco taxes, taxation of some forms of amusement, such as prize fights and carnivals, and even the bill-board taxes and a variety of still more special taxes. As a whole, this represents a field of most interesting possibilities, to the scientific economist as well as to the practical legislator. It will be a fruitful field for legislative inquiry and consideration over the next few years. But any wise and permanent tax legislation in this field will require careful research and patient, mature deliberation. For the social and economic conditions to which such taxes must be adjusted have not been sufficiently analyzed in Illinois; and the tentative experiments in this field in other states have not been sufficiently comprehensive to afford specific guidance for Illinois.

The Income Tax the Remaining Alternative

The gradual realization of the inadequacy or impracticability of other alternatives has apparently been the major influence in bringing about the movement toward the adoption of an income tax in Illinois. The chief impetus back of it has been the desire to relieve real estate. This accounts for its support by the farm and real estate groups. But labor groups have been educated by intelligent leadership to the principles of more equitable distribution of tax burdens on the basis of income; the State Bankers' Association and other groups have endorsed it; and there is a wide sprinkling of detached sentiment that has come to favor the idea of an income tax on general principles. When one recalls the extremely suspicious and antagonistic attitude toward any suggestion of an income tax only three or four years ago, the revolution that has taken place in sentiment since that time is remarkable. Undoubtedly the change is due in part to the revulsion against present methods of taxation, in

consequence of the conditions disclosed in the past few years. However brought about, the fact is that there has been a substantial change of sentiment.

But there are three powerful obstacles to the adoption of an income tax.

(1) *Necessity of Constitutional Amendment*

The first is the necessity of a constitutional amendment, giving the Legislature freedom to enact such a tax. The proposal for such an amendment, adopted by the recent Special Session of the Legislature, will be voted on at the coming election on November 4th. It will encounter the opposition not only of those specifically opposed to an income tax, but of those opposed to any form of classification of property, and, more inclusive than either, the opposition of those opposed *to any change* from present methods of taxation.

The latter classification includes in a general way those whose position and outlook naturally make them conservative, suspicious of change, and averse to any increase in the powers of the Legislature. But it includes specifically two groups who are definitely profiting by a continuance of the present system. One of these is represented by the official and political groups who have been exploiting the present system. Every tax racketeer in Chicago will "view with alarm," a sincere and genuine alarm, the Constitutional Amendment and any proposal for an income tax, both of which will tend to deprive him of the powerful racket associated with the present personal property tax. The other group is the manufacturers' associations, whose position under the present general property tax has been discussed in another connection (pp. 105 and 106).

(2) *Specific Opposition to an Income Tax*

If the proposed Constitutional Amendment is ratified in November—or whenever the necessary constitutional change is

adopted—the greatest obstacle to the adoption of an income tax will have been removed, and the situation itself will be greatly clarified. The question will then settle down to an issue between the groups supporting an income tax and the specific opposition to such a tax.

This opposition will include the more extremely conservative groups, who look upon an income tax as simply another tax, in addition to all the present taxes, and who are particularly antagonistic to any progressive feature in the rates of such tax, as representing "radical" or "socialistic" tendencies. It will include again the manufacturers' association, whose members in general are recipients of profitable incomes that largely escape taxation under the present property taxes. Their incomes would undoubtedly carry a larger proportion of tax burdens under an income tax. Their opposition to any kind of income taxation is legitimate—and perfectly obvious.

(3) *The Geographical Factor* A third obstacle to an income tax in Illinois is the unfortunate rift on tax questions and other matters between metropolitan Chicago and the rest of the state. Cook County contains roughly half of the population and wealth of the state. The state has not been reapportioned for purposes of representation in the Legislature since 1901, so that the state outside of Cook County now has 34 out of a total membership of 51 in the State Senate, and 95 out of a total membership of 152 in the Assembly. Chicago people resent the refusal of the Legislature to reapportion the state; and it must be conceded that the continued violation of this constitutional provision is only another example of the governmental lawlessness that has prevailed in Illinois for many years.

Before the final drafting of the proposed constitutional amendment, many people in Chicago were

apprehensive of legislation which would levy an income in such a way as to draw a disproportionate amount of the revenue from Chicago and yet distribute the proceeds with reference to benefits for the rest of the state. The limitation of the State's share to 15% of the proceeds of any income tax adopted (except by a two-thirds vote) has entirely removed any ground for such apprehension.

It is very much to be hoped that other aspects of this entirely extraneous factor will be adjusted as promptly as possible, in order that the problem of an income tax may be solved on its own merits, and that the features of any income tax adopted may be worked out with a view to the best interests of the whole state.

The Practical Problem

Notwithstanding the obstacles that have been enumerated above and the various elements of opposition to an income tax, it is the writer's judgment that the pressure of present burdens on real estate and tangible property, the acute distress of the farmers and other groups under present methods of taxation, and the apparent absence of other practicable alternatives will eventually compel resort to income taxation as a source of revenue. And the practical problem for all concerned is to unite in working out the most reasonable and equitable type of income tax, the most economical and efficient type of administrative machinery for administering it, and such a distribution of the proceeds as will afford the maximum relief to the taxpayers of the state.

In the solution of this problem, the first step should be to utilize the experience of other states in any way in which that experience may be pertinent to conditions in Illinois. For this purpose, a complete exhibit of the essential features of income taxes in all the

states that now have such a tax is given in the table below.

With the experience and practice of other states before us as a practical background, we may proceed to consider the essential features of a state income tax. This will fall into two divisions, the tax on individual incomes and that on corporate incomes.

The Individual Income Tax

Its Place in the Revenue System

In the first place, since the income tax has been brought to the front by the necessity of terminating the fiasco of the present personal property tax and of relieving the burden upon real estate, its adoption should be utilized to definitely accomplish these objectives. The revenue yielded should be applied to the reduction of property taxes; and the adoption of the tax should make it possible to exempt from property taxes those intangibles and other classes of personal property which experience has shown cannot be assessed. If, as has been intimated above, the form of the proposed amendment makes exemption impossible, these groups should be separately classified and subjected to the lowest tax rates computable.

After the income tax has been assured of its proper place in the revenue system, as a means of replacing the impracticable elements of the present personal property tax and of reducing the burden upon real estate and tangible property, the essential features of the tax itself are then concerned with (a) the exemptions, (b) the rates, and (c) apportionment of the proceeds. In all of these things it is important that the initial schedules and provisions should not be considered as unalterably and permanently fixed. Not only are conditions different in each state, but within the state they will change from one period to another.

State Income Taxes

State	When Adopted	Individual			Corporate		Yield
		Specific Exemptions	Rates on Taxable Income	Distribution of Proceeds	Rates	Distribution of Proceeds	1928
Virginia.....	1843 1870 1919	Single, $1000 Married, $2000 Dependent, $400	First –$3000, 1½% $3000–$5000, 2½% Over $5000, 3%	State	3%	State	$3,455,000
Wisconsin.....	1911	Single, $8 of tax Married, $17.50 of tax Dependent, $3 of tax	First $1000, 1% $1000– $2000, 1¼% $2000– $3000, 1½% $3000– $4000, 1¾% $4000– $5000, 2% $5000– $6000, 2½% $6000– $7000, 3% $7000– $8000, 3½% $8000– $9000, 4% $9000–$10000, 4½% $10000–$11000, 5% $11000–$12000, 5½% Over $12000, 6% Teachers' Retirement Fund surtax of ⅙ regular rates on taxable income of $3000 or over.	40% retained by state. 10% returned to counties. 50% to town in which tax was levied. When 50% balance exceeds 2% of the assessed property valuation, the excess is divided among towns, cities and villages of the county according to school population.	First $1000, 2% $1000–$2000, 2½% $2000–$3000, 3% $3000–$4000, 3½% $4000–$5000, 4% $5000–$6000, 5% Over $6000, 6% Teachers' Retirement Fund surtax of ⅙ regular rates on taxable income in excess of $3000.	Same as Individual	$18,048,000
Mississippi.....	1912	Single, $1000 Married, $2000 Dependent, $200	First $1000, 1% $1000– $2000, 1½% $2000– $5000, 2% $5000–$10000, 3% $10000–$25000, 4% Over $25000, 5%	State	First $2000, 2½% $2000– $5000, 3½% $5000–$15000, 4½% Over $15000, 5½%	State	$1,437,000

State	When Adopted	Individual			Corporate		Yield
		Specific Exemptions	Rates on Taxable Income	Distribution of Proceeds	Rates	Distribution of Proceeds	1928
Connecticut....	1915	—	—	—	2%	State	$2,623,000
Oklahoma.....	1915	Single, $3000 Married, $4000 Child under eighteen $300 Child acquiring education $500 Other dependents $200	First $10000, ¾% $10000–$25000, 1½% Over $25000, 2%	State	—	—	$1,088,000
Delaware.....	1917	Single, $1000 Married, $2000	First $3000, 1% $3000–$10000, 2% Over $10000, 3%	To school districts on basis of school population.	—	—	$1,551,000
Massachusetts..	1917	Various specific provisions	Various specific provisions	Educational purposes under Educational Act; balance distributed to localities on basis of state assessment.	2½% for manufacturing and mercantile corporations. For banks, rate no greater than proportion of such income paid by other corporations in excise and property taxes, which is about 5½%.	Same as individual	$32,235,000

State	When Adopted	Individual			Corporate		Yield
		Specific Exemptions	Rates on Taxable Income	Distribution of Proceeds	Rates	Distribution of Proceeds	1928
Missouri.....	1917	Single, $1000 Married, $2000 Dependent, $200	1%	State	1%	State	$3,698,000
New York.....	1917 1919	Single, $2500 Married, $4000 Dependent, $400	First $10000, 1% $10000–$50000, 2% Over $50000, 3%	One-half to state, one-half to counties, cities and towns on basis of assessed valuation.	4½%	Two-thirds to state, one-third to counties to be distributed in the same way as proceeds from individual income tax, if derived from franchise tax on manufacturing and mercantile corporations; if from franchise tax on financial institutions, distributed to localities of origin.	$115,424,000
Montana.....	1917	—	—	—	1% on net income in excess of $2500.	State	$249,000

State	When Adopted	Individual			Corporate		Yield
		Specific Exemptions	Rates on Taxable Income	Distribution of Proceeds	Rates	Distribution of Proceeds	1928
North Dakota..	1919	Single, $1000 Married, $2000 Dependent, $300	First $2000, 1% $2000– $4000, 2% $4000– $6000, 3% $6000– $8000, 4% $8000–$10000, 5% Over $10000, 6%	State	3% on entire net income from North Dakota sources.	State	$455,000
North Carolina.	1921	Single, $1000 Married, $2000 Dependent, $200	First $2500, 1¼% $2500– $5000, 2% $5000– $7500, 2¾% $7500–$10000, 3½% $10000–$15000, 4½% Over $15000, 5%	State	4½%	State	$8,175,000
South Carolina.	1922	Single, $1500 Married, $2500 Dependent, $400	First $2500, 1% $2500– $5000, 1½% $5000– $7500, 2½% $7500–$10000, 3½% $10000–$15000, 4½% Over $15000, 5%	State	4%	State	$2,263,000
New Hampshire	1923	Single, $200 Married, $200	Average rate in the state of all property taxes for the year in which the income was received.	Redistributed to localities of origin.	—	—	$570,000
Tennessee.....	1923 1929	Single, $1000 Married, $1000	5%	State	3%	State	$727,000
California.....	1929	—	—	—	4%	State	—

State	When Adopted	Individual			Corporate		Yield
		Specific Exemptions	Rates on Taxable Income	Distribution of Proceeds	Rates	Distribution of Proceeds	1928
Georgia.....	1929	Single, $1500 Married, $3500 Dependent, $400	One-third of the federal income tax rates applicable to equivalent amount of net income.	State	4%	State	—
Arkansas.....	1929	Single, $1500 Married, $2500 Dependent, $400	First $3000, 1% $3000–$6000, 2% $6000–$11000, 3% $11000–$25000, 4% Over $25000, 5%	First $500,000 annually to Charities Fund; next $750,000 to Common School Equalization Fund; remainder to special fund to reduce state taxation on property.	2% on net income in excess of $1500.	Same as individual.	—
Washington....	1929	—	—	—	5%	Treated as personal property taxes and distributed as such.	—
Oregon.....	1929	Single, $1500 Married, $2500 Dependent, $400	First $1000, 1% $1000–$2000, 2% $2000–$3000, 3% $3000–$4000, 4% Over $4000, 5%	State	5%	State	—

More important from the standpoint of our own problem is the fact that we do not know just what form of income taxation will be best suited to Illinois, what the revenue will be, in what proportions this revenue will come from different classes and industries, where its incidence will rest with the greatest and the least hardship, and what the wisest distribution of its proceeds from time to time will be. For these reasons, the various features of the tax should be made as moderate as possible at the time of its initiation and should be considered tentative until the best adjustments can be worked out in the light of our own experience with it.

It will not be our purpose here to set up any detailed draft of an income tax bill, but merely to indicate some of the general considerations involved in framing such a tax.

Exemptions The exemptions for individuals should be fairly liberal, in order not to overburden the administration of the tax with a superfluous mass of small income returns, yielding little revenue, until the administrative organization and procedure has been worked out, accounting practices standardized, and legal problems settled. Liberal exemptions are desirable, likewise, in order to avoid unnecessarily antagonizing large classes of the smaller taxpayers in the process of establishing the tax. This will mean the loss of some revenue from the lower income strata, but will be more than off-set by speeding up the development of an efficient administration of the tax and by minimizing the irritation accompanying the establishment of a new tax in the revenue system.

Rates For the same reasons the initial rates should be moderate, with a low minimum rate of not more than 1%, a slowly rising graduation of rates, and a moderate maximum rate of not more than 4 or 5%. The advan-

tage of starting with such a schedule is that if the tax operates smoothly and meets with public favor (as a tax constructed on these principles will), and if it is felt desirable later to expand the revenue from this source, this can then be accomplished by concessions *at both ends of the schedule*. That is, the exemptions at the bottom can be lowered, and the rates at the top pushed upward, without favoritism either to the lower or the upper income strata.

Apportionment of Proceeds

The apportionment of the proceeds differs widely according to the purpose of the tax in the revenue system of the state. In Illinois, since the purpose of the tax is to replace certain personal property taxes and to relieve real estate taxes, both of which have been primarily sources of local revenue, the greater portion of the revenue should be apportioned back to the counties and municipalities. Whether this portion should be as large as the 85% specified in the proposed amendment, and whether the *basis* of apportionment should be origin of payments, as provided, or population, assessed valuation of property, or other consideration, are matters in which there is room for difference of opinion, but which have been defined for the time being by the terms of the proposed amendment.

This amendment provides that 85% of the proceeds, after deducting costs of collection, shall be apportioned back to the counties on the basis of income tax payments. The further apportionment of proceeds among the county and local jurisdictions within the county is left to the Legislature. There are a variety of bases for such apportionment, as illustrated in the tabulation above. The one basis on which this local apportionment should clearly *not* be made is that of income tax payments. Such an apportionment would result in fantastic allotments of revenue to wealthy

suburban communities, while continuing heavy property taxes on the poorer and more populous districts, from which the suburban incomes may themselves be derived.

Administration The best devised income tax in the world will prove a failure unless a competent administration is provided for it. And with the long and disheartening experience Illinois has had with vicious tax administration in other fields, it behooves the Commonwealth, if it is going to adopt an income tax, not to strangle it at the outset with an incompetent administration.

This means in particular that its administration should not be lodged with the Secretary of State or the State Auditor or Treasurer, or added to the conglomerate duties of some other extraneous office. It should be lodged with the central state tax department, whatever that is. At present that purports to be the State Tax Commission. The adoption of an income tax would be one further reason for shaping the powers, functions, and personnel of this commission with a view to making it actually the head of the tax organization of the state. The entire administration of the income tax should then be placed with the Tax Commission, one division of which should specialize in this field of taxation.

The Corporate Income Tax

Its Place in the Revenue System Just as the personal income tax should replace the personal property taxes on intangibles and certain other forms of unassessable personal property, so the tax on corporate incomes should replace the present farcical tax on corporate capital stock, or the so-called "corporate excess." In our previous study[22] it was pointed out that if this tax is to be continued at all, the assessment

[22] *The Tax Situation in Illinois*, p. 81.

of the corporate excess of all corporations should immediately be transferred to the State Tax Commission. But the adoption of a tax on corporate incomes would remove the last vestige of reason for the continuance of a tax, which has been a fiasco from the first and which throughout much of the period of its existence has provided the basis for effective "racketeering" on the part of both state and local tax officials.

Exemptions The same reason for specific exemptions does not exist in the case of corporations as in that of individuals; but if the purpose is to make the tax rest as easily as possible, there is no reason why the smaller corporation and the corporation just struggling to show a profit or avoid a loss should not have the little easement of a small exemption before the tax begins. The exemption of stockholders from taxes on dividends of Illinois corporations is a logical corrollary of the corporate income tax.

Rates The rates, particularly if a small exemption is allowed before the tax applies, should be uniform. The corporate tax is a tax on business, and there is no principle on which business taxes should be graduated with reference either to the size or the success of the business. Business profits are a product; and progressive taxation is not intended to apply to the *production* of income but to the *receipt* of income. The progressive principle can well be limited to the personal income tax schedule.

Like the individual rates, the corporate rate accompanying the initiation of the tax should be moderate, that is, from 3 to 5%.

Administration Needless to say, the corporate income tax should be administered by the same agency and with the same general procedure as the personal income tax. It deals with a different set of materials, however, involving a wide variety of accounting problems and

legal questions, and should be organized as a separate division in the Income Tax Department of the State Tax Commission.

Summary

In summary, then, it may be said that the remedies herein suggested include a centralized assessment administration, increased powers on the part of the State Tax Commission, repeal of the quadrennial limitation, establishment of full value assessment, adoption of a constitutional amendment abolishing the uniformity requirement, and a moderate step in the direction of state income taxation. Such is a broad outline of what appear to be the essential steps in establishing an honest and equitable system of taxation in Illinois. It contains nothing radical, new, or untried. In fact, it is nothing but a common sense application of known facts and experience. But if the people of Illinois will adopt some such program, in its essential outlines, it is safe to say that a study of the tax situation in Chicago ten years from now will tell a very different story from the one that is herewith brought to a close.

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